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US Republicans retreat
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BUSINESS NEWS

Philips fails to hit ambitious target in the market for mobile phones

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Boeing's first quarter net earnings dived to $50m from $540m last year, hit partly by a price war with Airbus Industrie. The US aircraft maker made a $218m provision for expected losses on its latest 737 aircraft. Page 21

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World Trade Organisation upheld complaints by the US, EU and Japan that Indonesia's "national car" programme violates international trade rules. Page 15

Ameritech, the US phone group, is seeking to invest between $1bn and $3bn in a central or eastern European telecoms group by the end of next year. The company has invested around $4.7bn in Europe to date.

Mobil of the US has struck a deal with UK-based partner Monument Oil and Gas and Turkmenneft, Turkmenistan's state oil company, to explore and develop energy resources in Turkmenistan. Page 26; Mobil declines, Page 23

Security Capital Group, US-based property company, has almost $2bn to invest in property outside the US and plans to create a new European-based company, Security Capital Global Realty. Page 23

Electronic Data Systems, the US information-services provider, and Banca di Roma, the Italian commercial bank, signed a $1.5bn, 10-year information technology deal. Page 25

Euro Disney's losses reduced thanks to more visitors and greater efficiency. The Paris-based theme park's interim losses fell to FFr205m ($34.2m) from FFr210m a year earlier. Page 25

Philippine Airlines, the ailing national carrier, is talking to international airlines including Northwest Airlines, American Airlines, British Airways and Lufthansa about a possible alliance. Page 22

Foreign bankers in China appealed to Beijing to relax curbs on their lending in the local renminbi currency. Page 4

First Pacific, Hong Kong-based conglomerate, has sold its stake in United Commercial Bank of California for US$120m. Page 22

Colgate-Palmolive, US consumer products company, boosted three-month income by 16 per cent to $196m despite the strong dollar. Page 23

Lucent Technologies beat Wall Street forecasts, more than doubling second-quarter net income to $180m. Page 23

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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Communist leader vows to reject Yeltsin's man again

By Chrystia Freeland in Moscow

Russia was pushed to the brink of political crisis yesterday when Gennady Zyuganov, the Communist party leader, said he was prepared to force new parliamentary elections in a crucial vote tomorrow.

Mr Zyuganov said the Communists were eager to call President Boris Yeltsin's bluff and reject Sergei Kiriyenko, his prime minister designate, when he faces a third and final confirmation vote on Friday.

If parliament votes against Mr Kiriyenko for a third time, Mr Yeltsin will have the power to dissolve the legislature and call new elections.

Mr Zyuganov said that was a step the left would welcome. He said: "We are ready for elections. We think they would be very beneficial to us.

"In its current make-up, the Duma (the lower house of parliament) will not be bold enough to make changes to the constitution and put limits on the executive powers that are destroying the country."

In past confrontations, Russia's weak and disorganised parliament has always caved in to the Kremlin.

But this time, Mr Yeltsin's brinkmanship has provoked a more unified and hostile reaction from the parliamentary parties than before.

The key issue is whether the Communist leader will be able to force rank-and-file deputies to give up their seats and risk new elections. Unlike their party bosses, Communist backbenchers are unlikely to welcome new elections and the risk of losing their prestigious and lucrative Moscow posts.

A crucial factor will be the parliament's decision, expected today, on whether the third vote for Mr Kiriyenko, 35, will be open or secret. If it is secret, he is likely to be confirmed as prime minister. If it is open and party discipline is easier to enforce, the risks for the Kremlin will be much higher.

Mr Yeltsin yesterday showed no signs of budging. A Kremlin spokesman said his nomination of Mr Kiriyenko was final and could not be changed. However, Mr Yeltsin is expected to do some last-minute lobbying today, agreeing to meet with the speakers of the upper and lower chambers of parliament. The upper house yesterday spoke out on the president's behalf, urging the Duma to back away from a confrontation.

Moderate Communists, including Gennady Seleznyov, the speaker of the Duma, and some of the smaller leftist parties have also urged the Communist leadership to back down.

In addition to the Communists, Yabloko, the liberal opposition party, has said it will vote against Mr Kiriyenko.

The two groups by themselves do not have quite enough votes to sink Mr Kiriyenko's candidacy, but their united opposition would make Friday's decision very precarious.

The Duma's hostile mood was apparent in its decision yesterday to endorse a land code which does not provide for the free sale of arable land. Mr Yeltsin has vehemently opposed the law.

Russia's Communist party leader Gennady Zyuganov faces reporters in Red Square, Moscow, yesterday as he threatened to call President Boris Yeltsin's bluff and force new parliamentary elections Picture AP

Fans call foul as World Cup hotline freezes up

By Patrick Harverson in London and Samer Iskandar in Brussels

The ticketing arrangements for the World Cup descended into chaos yesterday when a special French hotline set up to sell 110,000 extra tickets was swamped by tens of millions of phone calls from European football fans desperate to attend the summer tournament in France.

An estimated 15m calls came from the UK alone, the vast majority being greeted by an engaged tone or a message to try later. With the odds of getting through calculated at about 2m to one, supporters' groups described the situation as a farce.

Fans from other countries faced similar problems. In the first hour alone there were 2m call attempts from the Netherlands and 1.7m from Belgium.

Tony Banks, the UK sports minister, said the situation was "wholly unsatisfactory". The Belgian football federation described it as "deplorable".

The Comité Français d'Organisation, the body running the World Cup, had arranged for 60 operators to handle the calls from outside France and 30 for domestic calls. However, telecoms experts said the number of operators was far too small.

"A television programme with a phone-in for viewers expecting 1m calls in a couple of hours would have several hundred agents to handle them, backed by sophisticated technology, so 90 is woefully inadequate," said James Wilkinson of TSC Europe, a London-based call-centre consultancy.

The CFO stood by its system for selling the tickets. It revealed that 10m calls, more than 2.5m from outside France, were logged in the first three hours yesterday. The phone companies of each country allowed only a fraction of calls to get through to the call centre in the Paris suburb of Evry.

Meanwhile, 30 members of the European Parliament in Brussels yesterday stepped up their campaign against the CFO's ticketing arrangements by starting legal action to force the organisers to redistribute more than 700,000 tickets already allocated to people within France.

Bank of New York bids for Mellon

By William Lewis and John Authers in New York

The Bank of New York yesterday launched a $24bn hostile bid for Mellon Bank of Pittsburgh, in an attempt by the oldest bank in the US to join the wave of consolidation sweeping the financial services industry in the US.

Mellon immediately rejected the all-stock offer – the largest ever unsolicited bid for a bank in the US. "We are not interested in pursuing a transaction – we are not for sale," said Frank Cahouet, chairman and chief executive of Mellon.

In response BoNY said it would not launch a tender offer but would work to persuade the Mellon board to change its decision. BoNY said that its unsolicited offer followed several years of on-off talks between the two banks, including a near-merger deal last December. "We are dismayed by the quickness of their reaction," said Thomas Renyi, chairman and chief executive of BoNY.

If the bid is successful it would create a global powerhouse in several investment management-related businesses. The bank would be the largest global custodian in the world, with $5,500bn in assets, and be one of the largest fund managers with $350bn in assets under management. It would be the sixth largest US bank by market capitalisation.

It follows a flurry of huge bank deals in the US including the $170bn merger agreement earlier this month by Travelers Group and Citicorp, and similar accords between NationsBank and BankAmerica and First Chicago NBD and Banc One.

US investors have long seen a combination between BoNY and Mellon as a good fit with both banks' focus on building fee income. However, BoNY's bid tactics astonished analysts and in morning trading its share price fell $1¼ – 2 per cent – to $62⅝.

Mellon's share price rose $7⅞ – 11.4 per cent – to $77⅞, partly on speculation that the nature of BoNY's so-called bear hug approach would push Mellon to seek a white knight bidder or lead to it obtaining a higher price from BoNY. BoNY said that, based on its stock price close on Tuesday, its all-stock offer valued each Mellon share at $90.

Derek Sword, banking analyst at Keefe Bruyette & Woods, the Wall Street investment broker, described BoNY's tactics as "extraordinary".

Other analysts said they were surprised by the concessions made by BoNY, for example its plan to situate the bank's headquarters in Pittsburgh, Pennsylvania, and name the bank the Mellon Bank of New York.

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IBM attempts to tap into nursery computer market

By Louise Kehoe in San Francisco

When it comes to computer literacy, it seems it can never be too early to start.

International Business Machines and Little Tikes, a subsidiary of Rubbermaid best known for its ride-along toys for toddlers, will today unveil a jointly developed computer system for 3-7 year olds.

The all-in-one unit includes a child-sized desk and bench seat with a built-in computer system.

IBM has thrown out its traditionally conservative palate of greys and black in favour of bright yellow and purple plastic – with just a touch of its signature blue.

Little Tikes, which will distribute and market the "Young Explorer" to pre-schools and elementary schools, designed the unit with young children and their teachers in mind.

In contrast to standard PCs, which typically have a mess of wires coming out of the back of the machine, all wiring is contained and hidden. So too is the actual computer; ensuring that young inquiring minds do not have too much opportunity to explore the wonders of disk drives and other delicate equipment. The flat membrane keyboard is built into a yellow plastic desk. It can survive sticky fingers and spilt orange juice, but it has the standard keyboard layout and size so that skills learnt can be transferred to home PCs.

Software from IBM's Edmark subsidiary is designed to enable children to start up programs such as 'Millie's Math House' and 'Bailey's Book House' with the click of a mouse. Pre-school teachers, who sometimes are less enthusiastic about technology than their charges, are also assured that the system will work at the press of a button without them needing to take computer courses.

The system, which goes on sale in North America this summer at a price of $2,300, is aimed mainly at nursery schools and primary schools. However, IBM is also considering a retail version. "My children are asking me 'When can we get one?,'" said Michele Riggs, IBM project manager and mother of two. She initiated the product development two years ago, after observing the use of PCs in her son's nursery school.

For IBM, the project is not all fun and games. In the US education market Apple Computer remains the market leader. By taking a new approach IBM aims to overtake its competitors. No doubt it has also considered the benefits of making a good impression on a future generation of technically astute workers.

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	9,187.18	(+2.24)
NASDAQ Composite	1,914.00	(+10.13)
Europe and Far East		
CAC40	3,835.07	(-25.33)
DAX	5,350.85	(-28.28)
FTSE 100	5,931.1	(-23.9)
Nikkei	15,761.54	(-64.13)
US LUNCHTIME RATES		
Federal Funds	5.5%	
3-mth Treas Bills: Yld	5.072%	
Long Bond	102⅜	
Yield	5.946%	
OTHER RATES		
UK: 3-mo Interbank	7⅛%	(7⅛%)
UK: 10 yr Gilt	110.1563	(110.703)
France: 10 yr OAT	104.03	(104.19)
Germany: 10 yr Bond	107.67	(107.77)
Japan: 10 yr JGB	109.84	(109.89)
NORTH SEA OIL (Argus)		
Brent Dated	$13.725	(13.85)

GOLD		
New York Comex		
(April)	$313.8	(311.2)
London	$313.05	(308.55)
EXCHANGE RATES		
Dollar		
New York lunchtime		
£	1.6733	
DM	1.79225	
FFr	6.0085	
SFr	1.4830	
Y	130.625	
London:		
£	1.6749	(1.6754)
DM	1.7917	(1.7904)
FFr	6.0088	(6.0010)
SFr	1.4841	(1.4872)
Y	130.595	(131.385)
Tokyo Close		Y 131.08
Sterling		
DM	3.0006	(2.9996)

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WORLD NEWS

EUROPE

New defeat for tobacco advertising

By Michael Smith in Brussels

An industry fight against a European Union ban on tobacco advertising was dealt a potentially mortal blow yesterday when an influential group of European parliamentarians rejected attempts to toughen the prohibition.

The European Parliament's environment committee took the highly unusual step of backing without amendment a proposed law agreed last December by the narrowest possible majority of European Union nations.

Many MEPs would have liked to strengthen the ban, which will be implemented in stages from 2001, culminating with a 2006 prohibition on all forms of sponsorship.

However, they accepted the advice of their leaders, including Ken Collins, environment committee chairman, that changes could enable prohibition opponents, including Germany, to reopen the debate and reverse the ban.

The committee's advice seems certain to be accepted by a meeting of the full parliament in mid-May. Mr Collins said all the large parliamentary parties agreed the measures should be backed without amendment.

Parliament shares decision-making powers with the 15 EU nations on tobacco advertising. Tobacco manufacturers, newspapers and advertising groups have been fighting a rearguard action against the ban, arguing that it will destroy jobs and that the legal basis for it is ill-founded.

Last week the parliament's legal affairs committee voted 12-7 to reject the ban's legal base. However, the environment committee is preparing the report on the issue on which the full assembly will vote. If parliament makes no amendments to the proposed directive, the European council of ministers will be obliged under EU procedure to adopt the measure without change.

Anti-smoking campaigners had argued that a vote for amendments would lead to "co-decision" negotiations between the council and the parliament which could in turn have led to attempts to change the minds of countries that voted for the ban in December.

At yesterday's meeting of the environmental committee, members voted 36-7 in favour of the ban after rejecting more than 70 amendments. Their decision means the UK, a strong supporter of the ban after securing a long phasing out period for Formula One racing, is likely to facilitate the final adoption of the prohibition proposal under its presidency of the EU ending in June.

Member states would have three years to legislate to put the directive into effect. A billboard ban on advertising would come into effect then, with a newspaper prohibition a year later.

Sponsorship of events including sports and arts would be allowed to continue for another year at least and there would be a further three-year exemption for "global events" to be nominated by individual countries.

Portugal charges Briton with fraud

By Peter Wise in Lisbon and Clay Harris in London

A Briton detained in Portugal in connection with a suspected international share sales swindle has been charged with "qualified fraud", criminal association and falsification of share certificates.

Eight other US, Hungarian and Canadian citizens, none of them detained or publicly identified by the Portuguese authorities, have also been charged with offences related to the operations of Paramount Portugal, a Lisbon-based shares sales operation closed by Portuguese authorities last year.

Portuguese investigators suspect Paramount defrauded international investors by selling US shares that turned to be practically worthless. The charge of "qualified fraud" relates to activities undertaken on a professional basis.

The charges against David Lowry, who has been held in a Lisbon jail for a year, were lodged on Tuesday evening, the eve of the 12-month deadline for bringing criminal charges against a detained suspect.

Mr Lowry's detention without charge for a year had been challenged by supporters as a breach of his human rights. The UK ambassador in Lisbon wrote three times to Portugal's justice minister expressing concern.

Mr Lowry, who denies any wrongdoing, has made several unsuccessful applications to be released on bail. He has also sought to take legal action alleging negligence by Portuguese judicial officials in the handling of his case.

The attorney general's office said yesterday that Mr Lowry's legal rights under Portuguese law had been fully respected. It said charges had not been brought sooner because of the "extreme complexity" of the case.

The charges in the case are understood to involve nearly 1,400 separate instances of alleged fraud.

The Swiss Banking Commission last month closed Paramount Securities & Trust Company, which held a controlling stake in Paramount Portugal. The Swiss regulator said Paramount had "violated rules on the conduct of trade in a crass manner".

Since the beginning of 1997, Portugal has closed the local offices of other unauthorised share-dealing operations – Robinson Schwab and Bathgate, Dreyfus and Pierce.

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Milosevic plays the Serbian nationalist card once more

Serbs vote today on foreign mediation in Kosovo. The government has made it clear what the answer is, writes Guy Dinmore

Serbia is turning the clock back seven years. Once again Slobodan Milosevic, now president of a diminished Yugoslavia, is on a collision course with the west and apparently preparing for another drawn-out conflict – this time not in Croatia or Bosnia but with ethnic Albanians demanding independence from Belgrade.

Deluged by nationalist propaganda carried by state media, Serbs have been exhorted to vote in a referendum today against foreign mediation in talks that have yet to begin with ethnic Albanians on the future status of Kosovo province.

Mr Milosevic, the master of brinkmanship, can bank on overwhelming support from a nation that views itself as the collective victims of an international conspiracy. He is also bargaining on a weak response from an international community just as divided over how to deal with Serbia as it was in 1991 when the former Yugoslavia disintegrated in war.

Dragan Tomic, the Socialist speaker of Serbia's parliament, has set the tone of the debate, comparing US-led threats of sanctions with the Nazi "genocide" of the Serb people in the second world war.

"There can be no discussions, no questions," he told parliament. "Either you are boss in your own house or not. When you are not a boss in your own house, then you can expect your neighbour in your wife's bed."

Vojislav Seselj, a former paramilitary leader whose ultra-nationalist Radicals have joined a coalition government with the Socialists, is also rallying his supporters. "Whenever the west is furious about something, we know it's good for Serbia," declared Mr Seselj, now a deputy prime minister.

Many Serbs regard the referendum as a test of their patriotism. Those hostile to Mr Milosevic fear repercussions if they do not vote. "It is like being asked if you are a Serb or not," said a senior engineer in a state enterprise where workers have been given time off to go to polling stations.

Fearing sanctions and a repeat of the hyperinflation of the early 1990s, Serbs are stocking supplies of food and basic necessities. Foreign investors attracted by sales of state assets have put their plans on hold.

The Contact Group – the US, Russia and four main European countries – is to meet again in Rome on April 29 to discuss its response to Mr Milosevic's intransigence. The five western nations have already agreed to freeze government credits to Yugoslavia and refuse visas to leading figures in the regime. The European Union is expected to follow suit, despite opposition by Greece.

The UN imposed an arms embargo on Yugoslavia on March 31 and urged it to grant meaningful autonomy to Kosovo. It also demanded that Belgrade agree to a foreign role in dialogue and withdraw its special police forces from the province, where ethnic Albanians make up about 90 per cent of its estimated 2m people.

Next Wednesday's Contact Group meeting, at the level of senior civil servants, may not be conclusive. The US is pressing for the freezing of Serbian and Yugoslav government funds held abroad while Russia, already owed more than $200m by Belgrade for gas supplies, leads opposition to further sanctions.

Serbian commentators say Mr Milosevic is using the referendum to divert attention from Yugoslavia's economic crisis and shore up his waning popularity. The outpourings of Serbian nationalism will also undermine his main opponent, Milo Djukanovic, the pro-western president of the small republic of Montenegro.

The vote may also lead to further violence in Kosovo, where more than 100 people have already been killed this year. A police offensive against rebels of the shadowy Kosovo Liberation Army last month has only fuelled support for the militant separatists, who have rejected the pacifist policies of Ibrahim Rugova, "president" of the self-declared Republic of Kosovo.

"For the Balkans, this escalating violence is the road back to hell," Madeleine Albright, the US secretary of state, warned this month. "The result could be a full-fledged civil war, putting at risk peace in Bosnia and spreading conflict like an infectious disease to neighbouring states."

Those fears intensified yesterday. Mr Rugova's Democratic League of Kosovo warned of an "impending full-scale attack against Albanian villages" by Yugoslav federal army troops and Serbian police in the Decani area near the Albanian border. Serb families, who say they have been attacked by "terrorists", have fled rural areas and taken refuge in collection centres in Decani town.

Belgrade police hold up a student march in support of Serb students in Kosovo Reuters

Russian company sued over shares

By Charles Clover in Moscow

A conflict has broken out over shareholder rights between a subsidiary of the huge Russian Yuksi group and minority investors led by a US businessman.

Navaromco, a Cyprus-based investment company, majority owned by the US businessman Kenneth Dart, has filed a lawsuit against Noyabrskneftegaz, an oil company which it accuses of diluting minority share holdings through a contested share issue last year.

The suit is the latest in a series of battles over minority shareholder rights in Russia's uncertain corporate climate. An unfavourable verdict for the oil company could slow consolidation plans for its parent company, Sibneft, which in January merged with Yukos to form the holding company Yuksi.

Mr Dart has bought minority shares in several other Russian oil companies and is spearheading a minority investor battle against these companies' owners as well.

Navaromco previously held a 7.6 per cent stake in Noyabrskneftegaz, but its holdings fell to 4.4 per cent after the the company's board issued new shares last May. The shares were bought by four investment companies, which subsequently transferred the shares to Sibneft. As a result, Sibneft's holdings increased from 61 per cent to 78 per cent.

The suit charges that minority shareholders were not given pre-emptive rights to the equity, and that it was priced at half its market value, both violations of Russian law.

Shareholders also charge that they were not notified in advance that there would be a vote on the share issue at a general shareholders' meeting on May 20 1997 and many chose not to attend.

Eugene Schvidler, chief financial officer of Yuksi, rejected Navaromco's allegations. "Sibneft has fully complied with the relevant legislation on this issue," he said.

Analysts say a possible reason for Sibneft's interest in increasing its shareholding to 78 per cent was to proceed with plans to consolidate its subsidiaries without opposition.

Yuksi has announced a three-stage share swap which eventually would consolidate all subsidiaries into one group. After the share dilution, Noyabrskneftegaz shares lost 40 per cent of their value from May 20, the date of the share auction, until the end of 1997, while Sibneft's shares gained by roughly the same percentage.

Noyabrskneftegaz accounts for virtually all the oil production, and most of the fundamental value, of Sibneft, according to Steven O'Sullivan, head of oil and gas research at United Financial Group in Moscow. In 1996, Sibneft produced 18m tonnes of oil.

REACTOR SAFETY RISKS AT FORMER SOVIET RESEARCH SITES

Scientists warn of more nuclear perils

By Chrystia Freeland in Moscow

The republic of Georgia, where the US is removing enriched uranium from a plant in Tbilisi for reprocessing in Britain, is home to another nuclear site that could be one of the most dangerous in the former Soviet Union.

The controversial US-British decision to airlift 5kg of nuclear material to the Dounreay plant in Scotland has focused attention on the research reactor in Tbilisi, Georgia's capital, but an international expert said yesterday another research site should cause the world even more concern.

William Potter, director of the Centre for Non-Proliferation Studies in Monterey, California, gave his warning about the institute of physics and technology in Sukhumi, capital of the Abkhazian region, which is seeking independence from Georgia.

Between 1992 and 1993 Abkhazia was thrown into chaos by a separatist war and Abkhazians and Georgians are still bitter rivals for control of the area.

"The last inventory in Sukhumi was in 1992," said Dr Potter. "During the armed conflict it was impossible to conduct a normal inventory and now the officials at Sukhumi don't even know how much they have."

Dr Potter warned that the Sukhumi facility, which housed 2kg of enriched uranium in 1992, posed an even greater proliferation risk than the reactor near Tbilisi.

"If we are taking the material out of Tbilisi, then we certainly need to take it out of Sukhumi," he argued.

The Sukhumi facility is perhaps the most precarious island in an archipelago of nuclear facilities which, since the collapse of the USSR, has posed one of the greatest security risks on the globe.

In the past, public attention has tended to focus on the more obvious threats posed by nuclear warheads and nuclear power plants, fears that weapons might be stolen and that ill-maintained reactors could melt down into a second Chernobyl.

But Russian specialists said that the weakest link in the former Soviet Union's fragile nuclear chain might be the civilian research facilities such as the one near Tbilisi. "In Russia and the former Soviet Union, the academic institutions pose a far greater danger than the military. I think the nuclear power plants are also relatively secure," said Andrei Piontkovsky, head of the Moscow-based Centre for Strategic Studies.

"The weak spot is academic and research institutes. The control over them is weaker and they are more impoverished," he says.

Other Russian analysts agreed. "The possibility of stealing nuclear materials is increasing as the sciences and higher education become impoverished," said Sergei Karaganov, deputy director of the Institute of Europe. "The situation is constantly getting worse, although the decline is gradual," he says.

Western proliferation experts are increasingly focusing on civilian facilities in the non-Russia republics, fearing that control there may be even looser than in Russia. Dr Potter said that approximately 600kg of enriched uranium was contained in facilities spread across 6 former Soviet republics: Georgia, Belarus, Kazakhstan, Latvia, Uzbekistan and Ukraine.

Although far more enriched uranium is found in Russia, Dr Potter said that would-be thieves might be more likely to try their luck in the less secure periphery states.

"If you are a would-be end user, you don't necessarily go to the place where there is the most of it, you go where it is most accessible," he said.

This view, which has gained credibility in the US over the past few years, is behind the operation this week.

But getting nuclear materials out is only half the battle. As the outrage of environmentalists and Scottish nationalists in the UK this week has underscored, an equally troubling issue is what to do with the nuclear materials once they are outside the former Soviet Union.

Dr Potter said the UK should be applauded for its willingness to take the material. He said inter-agency infighting in Washington as the reason the US would not store the uranium its airplane is flying out of Georgia. "The reason the US is not prepared to take the material is an inter-agency, bureaucratic reason," he said.

Another US analyst said the American stance also had a political angle. Oak-ridge, Tennessee, the US national laboratory where uranium airlifted out of Kazakhstan in 1994 was taken, would be the natural first stop for addition fuel brought into the US. But the 1994 operation provoked legal and political protests from anti-nuclear activists.

'During the armed conflict it was impossible to conduct a normal inventory and now the officials at Sukhumi don't even know how much they have'

Blair defends deal, Page 16

NEWS DIGEST

DEFENCE INDUSTRY

Ministers welcome report outlining integration plan

European industry ministers yesterday said a report they had received from leading aerospace and defence companies would serve as a starting point for integration of businesses in the sectors into a single European company.

British Aerospace, Aerospatiale of France and Daimler-Benz Aerospace of Germany last month submitted a joint response to a call from their governments for a plan for consolidation of the defence industry.

After a meeting in London, ministers from France, Britain, Germany, Spain and Italy welcomed the report, which has not been published.

They said all the companies believed commercial success depended on full integration and re-structuring, that civil and military businesses should be merged, and that the Airbus Industrie consortium would be a key element.

Sweden is to join the group of governments seeking rationalisation which consisted of France, Germany and Britain when it was formed last December. **Alexander Nicoll**

SHIPBUILDING

Brussels warns Italy over aid

The European Commission yesterday said that Italian plans to grant Ecu55.3m ($60m) of aid to shipbuilders breached a directive designed to regulate shipbuilding capacity.

The Italian government is planning to grant L108bn ($60m) of aid out of a total investment of L167.8bn in the creation of two new shipyards in Calabria and Sardinia.

Under the directive on aid to shipbuilding, aid to the creation of new shipyards may not be granted unless it is matched by a corresponding irreversible reduction in the capacity of other shipyards in the same country.

The commission doubted whether the aid was justified, because it was likely to increase shipbuilding capacity within the European Union. The plan was in breach of the directive, because the Italian authorities were unable to establish whether the capacity of recently closed yards corresponded to the new capacity which would be created.

The commission said Italy had been unable to provide names of shipyards that had irreversibly closed down their activities. **Samer Iskandar, Brussels**

HOLOCAUST COMPENSATION

Swiss face renewed pressure

The big three Swiss banks will face renewed pressure next Monday to reach a quick lump-sum settlement of the multi-billion dollar class actions by Holocaust survivors.

Stuart Eizenstat, the US under-secretary of state, has called a meeting in Washington of interested parties to try to speed up the process of finding a "global solution" to the various claims against the Swiss banks dating back to their activities during the second world war.

Mr Eizenstat is anxious to regain the initiative in negotiations which were in danger of being hijacked by local state finance officials.

The meeting comes a month after a steering committee of US state financial officials, headed by Alan Hevesi, the New York city comptroller, reviewed the banks' progress towards a global resolution of Holocaust-related issues. The committee suspended threatened sanctions against the banks for a month in order to see what progress was made by the end of April. **William Hall, Zurich**

TURKISH COMMISSION

PM's wealth to be investigated

Turkey's parliament voted yesterday to set up a commission to investigate the wealth of Mesut Yilmaz, the prime minister.

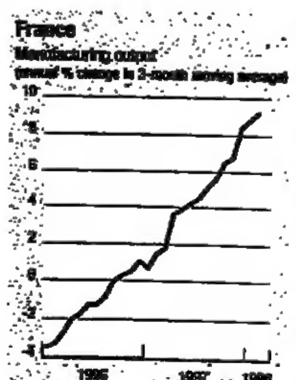
Although the commission could, in theory, lead to a Supreme Court trial on corruption charges, Mr Yilmaz's MPs are expected to kill the investigation in the committee stage. The decision followed a vote last week to set up a similar inquiry into Tansu Çiller, the conservative opposition leader whose party brought yesterday's motion against Mr Yilmaz.

Ms Çiller's party charged Mr Yilmaz with having "abused his position to gain property and hidden part of his wealth from a parliamentary investigation commission". Mr Yilmaz denies this.

Mr Yilmaz became prime minister for the first time in 1991 and his current conservative-led government came to power last June. **Reuters, Ankara**

ECONOMIC WATCH

French output rises 1.1%



Manufacturing output in France rose 1.1 per cent month-on-month in February, confirming the strength of the economic recovery. Overall industrial production was up 0.7 per cent, according to Insee, the official statistics institute. This figure reflected weaker demand for energy as a result of mild weather. The robustness of the manufacturing sector was underpinned by a strong performance from the automotive industry.

Compared with January, production grew 2.4 per cent and year-on-year increased more than 21 per cent. In general output of consumer goods was above the month-on-month average, rising 1.9 per cent. Production of pharmaceuticals and perfumes increased 2.4 per cent against January.

The impact of the Socialist-led government's policies to try to stimulate domestic demand began to be felt at the turn of the year. Manufacturing capacity is now being geared more to local consumption as the significance of last year's export led growth declines. **Robert Graham, Paris**

POLAND'S CURRENCY

Move to slow appreciation

Poland moved yesterday to slow the appreciation of its currency when the Monetary Policy Committee (RPP) told the central bank to lower the rate for its open money market operations by 1 per cent to 23 per cent.

Short term capital inflows have pushed foreign currency reserves up by $2.6bn in February to $22.9bn at the end of the month.

The zloty has also risen by 4.5 per cent against the US dollar since the beginning of this year.

The first two months of the year saw the current account deficit reach $1.2bn, $123m more than in the same period last year.

Despite the buoyant zloty, import spending in the first two months which was worth $6.7bn rose by 10 per cent on the same period last year. **Christopher Bobinski, Warsaw**

هكذا من الأصل

Portugal takes on mentor role to eastern Europe's economies

President Jorge Sampaio believes the experience of his country over the last 30 years can show the east how to catch up with the west, writes **Peter Wise**

Jorge Sampaio, Portugal's socialist president, told students at the School of International Relations in Kiev while on a visit to Ukraine last week that, having been a leader of a militant student movement in the 1960s, he was looking forward to a lively discussion.

He tried not to look disconcerted as they queued politely at the microphone to ask respectful questions. But a restrained curiosity quickly emerged from behind the formality. It soon became clear that the issue for these young Ukrainians was much the same question as Mr Sampaio and his companions had posed in their own youth when Portugal was poor, isolated and uncertain: how do we become modern, democratic, prosperous Europeans?

Mr Sampaio believes he has learned enough over the past 30 years to give Ukrainians and other east Europeans some of the answers.

In that period, Portugal toppled an authoritarian regime, emerged peacefully from revolutionary turmoil, privatised a state-dominated economy, made parliamentary democracy work, joined the European Union, almost caught up with western European living standards and qualified for economic and monetary union.

Portugal is now eager to impart the benefits of its experience to east European countries which want to achieve similar ambitions.

At the same time Mr Sampaio believes pragmatic political and business advantages are to be won from making the lessons of Portugal's recent history available to emerging democracies.

"The Portuguese transition was the first to reveal the great strength of the wave of democratisation, which then went on to Greece, Spain, and Latin America," he told the Ukrainian students.

"It was also the first time that, in a revolutionary situation, democratic socialists prevailed over orthodox communists." In this sense, Portugal's experience "anticipated the overthrow of communist regimes in central and eastern Europe".

While Mr Sampaio told Leonid Kuchma, the Ukrainian president, that he was impressed with the country's "determination to build a democracy based on the rule of law and the same humanist values as our own", there is something of an ambivalence in Portugal's attitude towards the former Soviet bloc.

For one thing, the market economies under construction in eastern Europe compete with Portugal for foreign investment. Most offer a lower paid but better educated workforce, production capacity much closer to big north European markets and a higher level of technology in some industrial sectors.

Moreover, when the main direction of European Union aid flows is switched from southern Europe and Ireland to the east European countries joining the EU, Portugal will suffer a reduction in its level of EU funding.

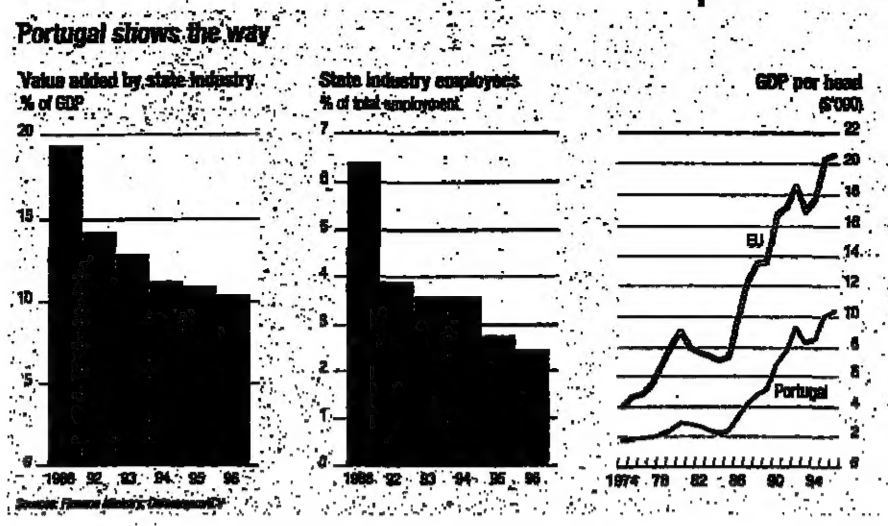
Portugal relies more heavily than any other EU member on so-called structural and cohesion funds, which provide the equivalent of more than 3 per cent of gross domestic product.

Yet Portugal has opted to throw itself wholeheartedly behind the EU's expansion to the east. In return, it expects its own claims for continuing to receive a high level of EU aid to be given a receptive hearing.

Part of this strategy involves imparting the wisdom of its emergence from dictatorship to any east European willing to listen.

In Ukraine, Mr Sampaio and his delegation of businessman, scientists and politicians found an eager audience.

In the Ukrainian parliament, persistent questions on how Portugal's parliamentary system works led him to sketch a diagram of the relationships between the presidency, government, parliament and other institutions. The piece of paper remained behind as an "historic document".



Source: Finance Ministry, Datastream/ICV


Jorge Sampaio, Portugal's president

Ukrainian politicians were also keen to learn the details of Portugal's privatisation programme, one of the most extensive and successful in Europe. Mr Sampaio drew attention to how privatisation revenue had been used both to lower public debt and to restructure other state-owned companies in readiness for privatisation.

Alberto Moreno, a economist who works with the World Bank on an interchange programme between Portugal and east Europe, says one the most import lessons to be learned from the Portuguese experience is the need to create effective competition in sectors that are to be privatised.

Portuguese businessmen believe they have other experiences that can work to their advantage in east Europe. One of these is a familiarity with the same kind of stifling, time-consuming bureaucracy produced both by the Salazar-Caetano dictatorship in Portugal and the communist regimes of the former Soviet bloc.

"We understand the mentality behind the red tape and how officials have to take their time because they are justifying the existence of their jobs," says Pedro Soares dos Santos, head of the east European operations of Jerónimo Martins, Portugal's second largest retail distribution chain. "This makes us more effective than many other foreign investors."

Advice is not all Portugal is sharing with eastern Europe. Over the past four years, Jerónimo Martins has invested \$200m in setting up the largest food retail chain in Poland. It will be operating more than 400 stores by the end of this year and forecasts 1998 sales of \$600m.

Several other Portuguese companies have followed with investments in Poland, Hungary, Russia and neighbouring countries.

"East European markets are less competitive in many sectors than any of the EU markets," says Mr Soares dos Santos. "That makes them a natural target for Portuguese companies finding there is no room left for expansion at home. By moving into east Europe we stand to benefit all over again from the flow of EU funds that has stimulated such strong economic growth in Portugal."

Fazio calls for spending cuts

By James Blitz in Rome

Antonio Fazio, Bank of Italy governor, yesterday warned the government that it needed to press more quickly towards balancing the budget even though European Union finance ministers had warmly approved its recent financial plan.

A day after Mr Fazio delighted Italian ministers by cutting the discount rate by half a percentage point to 5 per cent, he warned that failure to make deeper and faster cuts in public spending could expose the country to unfavourable developments in the world economy.

Appearing before the Italian parliament's joint budget committee, Mr Fazio gave overall approval to an outline three-year budget plan designed to ensure that Italy qualifies for economic and monetary union.

But Mr Fazio, one of the few people in Italy prepared publicly to criticise the government's economic policy, warned that deeper structural cuts needed to be made in welfare spending and taxation. The government's assumptions for lower interest rates and debt rescheduling over the next three years could also prove optimistic.

The government's plan assumes 12-month rates will be constant at 4.5 per cent between 1999 and 2001. Mr Fazio warned the figure could be higher.

The Italian government this week set out plans to reduce its budget deficit from last year's level of 2.7 per cent of gross domestic product to 1 per cent by 2001, moving towards balance after that.

The plan was applauded by Italy's EU partners. Gerrit Zalm, the Dutch finance minister who has consistently opposed Italian entry into Emu, described Carlo Azeglio Ciampi, his Rome counterpart, as "a tough nut".

However, Mr Fazio warned yesterday: "More rapid attainment of the balanced budget is necessary... to ensure the economy is less vulnerable to unfavourable cyclical developments and movements in international markets."

He also cautioned the government that welfare spending was still growing as a proportion of gross domestic product, despite "significant corrections" in recent years.

French expose divisions over plan for euro

By Robert Graham in Paris

The French parliament yesterday gave a lukewarm final endorsement to French membership of the planned single currency after a ragged two-day debate that exposed deep cross-party differences over the "surrender" of sovereignty.

A resolution sponsored by the Socialist-led government of Lionel Jospin was passed by 334 votes to 49. Mr Jospin's Communist allies refused to back the resolution, as did several other supporters of the administration.

The opposition ranks were also deeply split over the resolution and the Gaullist RPR walked out before the vote.

The RPR changed its mind several times over a 48-hour period, ending up by not voting but tabling a motion of censure of government policy, to be debated next week.

The more liberal UDF opted to vote for the euro resolution, believing it was wrong to confuse a commitment to the single currency with condemnation of government policy. Nevertheless, it eventually agreed to join its RPR allies in backing a censure motion.

Doubts about the euro among both government supporters and the opposition come less than two weeks before the May 2-3 summit to launch the single currency.

They contrast sharply with the strong European commitment of President Jacques Chirac, who last week warned that France still needed to make further efforts to reduce the budget deficit and liberalise the economy.

In the debate Mr Jospin pointedly refuted this advice from the head of state.

He went out of his way to reassure his Communist allies that France would not be at the mercy of the financial markets and that social and job creation policies would continue to have priority.

Mr Jospin also pledged to ensure that members of the future European Central Bank (ECB) would be called before national parliaments to explain monetary policy.

The debate revealed little idealism about the future Europe of the single currency.

Almost without exception speakers clung to the idea of a Europe of individual nations with strong policy differences.

Jack Lang, the Socialist veteran who heads the foreign affairs commission, caught the mood of both sides of the house, asking rhetorically: "A single currency without a common economic policy, isn't it likely to be very fragile at the mercy of the first stock market storm?"

The Gaullist RPR was deeply riven.

Its position also contradicted its stance on a vote earlier this month which approved a change in the Bank of France's statutes surrendering sovereignty on monetary policy to the future European Central Bank.

While the debate proceeded, the finance ministry further signalled France's intention of playing a dominant role in the future Euro-X council, which will provide political direction to macro-economic policy under the single currency.

France aims to be well prepared for expected clashes with its partners on the question of its high budget deficit and fiscal harmonisation and yesterday staged the first meeting of a newly formed 14-member economic council for the euro.

The French are unique among the 11 countries likely to join the single currency in forming such a body.

See feature: euro and dollar

CHINA-TAIWAN RELATIONS HOPES RISE OF THAW IN A COOL RELATIONSHIP AS NEGOTIATORS MEET TO DISCUSS HOW FUTURE CROSS-STRAIT CONTACTS MIGHT BE DEVELOPED

Beijing's talks with Taipei resume after three-year break

By James Kynge in Beijing

Negotiators from China and Taiwan met for the first time yesterday in nearly three years, raising hopes of a thaw in a relationship that has helped cool Washington's ties with Beijing.

Taiwan's negotiator, Jan Jyh-horng, expressed a hope as he arrived in Beijing that the two long-standing rivals would be able to "bid farewell to harsh winter and embrace spring".

The island of Taiwan split from China at the end of the Chinese civil war in 1949. Beijing regards it as a renegade province and threatens to attack if it ever declares independence.

Mr Jan, who is a deputy secretary general of Taipei's Straits Exchange Foundation (SEF), said he had come to discuss how future contacts might be deepened. The meeting's main significance lies not in its substance, but in the symbolism that both sides are on speaking terms once again.

One topic may be whether a second round of negotiations between Wang Daohan, China's top negotiator with Taiwan, and his counterpart Koo Chen-fu can be arranged.

The first Wang-Koo talks were held in Singapore in 1993, and led to subsequent lower-level talks on "technical" matters, but not on sensitive political issues such as the possibility of reunification. The talks this week between Mr Jan and his mainland counterpart, Li Yafei, of the Association for Relations Across the Taiwan Strait, are also characterised as "technical" in nature.

Beijing's wish to move to political dialogue – as a precursor to tackling the question of reunification – may also be discussed this week.

The resumption of dialogue is an indication that a central impediment to improved US-China ties has been removed, diplomats said. It was China's anger at a US decision to grant Lee Teng-hui, Taiwan's president, a visa in 1995 that prompted Beijing to break off the talks.

Diplomats said Washington had recently been exerting some pressure behind the scenes to bring Taipei back into discussions. With President Bill Clinton scheduled to attend a summit in Beijing in June, this week's talks may be held up as proof that China and the US have put behind them memories of Mr Lee's 1995 trip.

But there appears to be little, if any, change in the fundamental tensions that make for turbulence in cross-strait relations. Taipei is still trying to increase its diplomatic standing: it announced yesterday it wanted to change its official name (Taipei, China) at the Asian Development Bank to remove any hint that it is subordinate to China.

Water shortages loom for China

By Peter Montagnon, Asia Editor, in London

A cyclist enjoys the puddles in Beijing where the spring rains arrived yesterday Reuters

China faces a growing shortage of water which will hit farmers, affect living standards and force a steep rise in grain imports in the medium term, according to Lester Brown, the US economist who created a stir three years ago with a stark warning about the ability of the world's most populous country to feed itself.

The new study may focus debate on water, a hitherto neglected issue which he says is "a political tightrope" for the government in Beijing. Written jointly with Brian Halwell at the Washington-based Worldwatch Institute of which he is president, the study is to be published in the summer.

Mr Brown's earlier fears, expressed in a 1995 book, that Chinese demand would prompt a sharp rise in world grain prices and threaten world food security were widely seen as exaggerated, but his high profile strictures drew broad attention to the massive food needs of the country's increasingly affluent population.

Residential demand for water is projected to increase to 134bn tonnes a year by 2030 from 31bn tonnes in 1995, the study says, while industrial demand will jump to 269bn tonnes from 52bn. Agricultural demand will rise to 665bn tonnes from 400bn.

Nearly half of China's 617 cities already face water shortages. The water table beneath much of northern China, where 40 per cent of the country's grain is produced, has fallen an average of 1.5 metres a year for five years, and 80 per cent of China's rivers are so polluted they no longer support fish.

The Yellow River, which has run dry each year since 1985, failed for some months last year to reach Shandong province, which grows a fifth of China's wheat and a seventh of its maize.

"Farmers simply cannot compete economically with industry for water," Mr Brown says. "A thousand tonnes of water produces one tonne of wheat which has a market value of $200, while a thousand tonnes of water used in industry yields an estimated $14,000."

China wants to protect agriculture in fertile downstream regions, but the need for water upstream is "overwhelming" as China seeks to redistribute income to the interior of the country and prevent a mass exodus to its coastal cities.

China must restructure its economy to make it more water-efficient, Mr Brown says. China uses from 23 to 56 tonnes of water to make a tonne of steel, whereas the US, Japan and Germany use less than six tonnes.

Foreign banks ask for easing of yuan curbs

By James Kynge in Beijing

Foreign bankers made a strong appeal yesterday for China to relax restrictions which hamper their lending business in the local yuan currency.

John Beeman, country corporate officer at Citibank in China, said that a recent experiment under which nine foreign banks were given licences to conduct business in yuan had not yielded positive results.

"For the last four or five months, Citibank's renminbi [yuan] business has gone nowhere," said Mr Beeman. He described the yuan business done by foreign banks in China so far as "peanuts".

In roughly a year since the nine foreign banks started to conduct lending and deposit taking business in yuan, total loans of Yn519m ($63m) have been extended and deposits now total Yn558m.

The main reason for the low levels of business was that foreign banks are allowed to take yuan deposits only from foreign-invested companies in the area of Shanghai.

Mr Beeman, Michael Volz-Kjer, general manager of Dresdner Bank in China, and Christian Murck, senior country officer of Chase Manhattan Bank, said that all restrictions on foreign banks doing yuan business should be lifted.

Such a step, they argued, would increase competition and spur overdue reforms in China's banking system.

Calls for faster banking liberalisation have been a theme of a World Economic Forum meeting in Beijing this week.

Nicholas Lardy, senior fellow, foreign policy studies at the US Brookings Institution, said that an opening of the yuan market to foreign banks would facilitate the transfer of skills to Chinese banks.

"This financial system does not have *anywhere* near the level of competition to enforce the reforms that the government has planned," Mr Lardy said.

China plans to complete most of the necessary reforms to its state-dominated banking system within three years. But Zhang Xunhai, deputy director of the foreign financial institutions at the People's Bank of China – the central bank – said that yuan business for foreign banks cannot be fully opened at this time.

Liberalisation can only be achieved as fast as the central bank expands its ability to regulate the changes, said Mr Zhang.

"When conditions are ready, we will expand the pilot project to more financial institutions," he said.

Coalition split over LDP bid to dilute corruption bill

By Michiyo Nakamoto in Tokyo

Minority partners in the ruling coalition of Ryutaro Hashimoto, the Japanese prime minister, have threatened to pull out if an anti-corruption bill is watered down.

The Liberal Democratic party (LDP), which dominates the coalition, has also been rocked by internal party protest against the bill, which is designed to prevent so-called "pork-barrel" politics.

The Social Democratic party and the New Party Sakigake, both junior members of the government, say proposed exemption clauses in the bill, which is designed to stop politicians from receiving money for influence-peddling, would make a farce of the legislation.

Their withdrawal is unlikely to force an election but, with declared support from dissident members of Mr Hashimoto's LDP, this latest development will increase the pressure on the beleaguered prime minister.

The LDP has dismissed the threat from its minority partners in large part because it has regained its majority in the powerful lower house of parliament.

Mr Hashimoto is already under intense pressure at home and abroad for his handling of Japan's troubled economy.

To appease LDP politicians, who say the bill would in effect remove a key leverage with voters in constituencies, the LDP has inserted a clause that exempts money received and registered under a separate law. This clause allows politicians to receive donations of up to Y500,000 ($3,800) a year.

"Even dirty money will be legally protected up to Y500,000," says Takako Doi, leader of the socialists.

Influence peddling is regarded by many LDP politicians as part and parcel of their job. To deny influence-peddling "is to deny politicians themselves," one LDP member of parliament said in an interview.

Accepting political donations in exchange for ensuring a bridge or road is built in a particular constituency is normal practice in Japan.

The rift between the government parties comes as the LDP prepares to unveil the details of its last economic stimulus package today.

● The head of the Japan Communist party yesterday called for an opposition alliance to reduce the consumption tax to 3 per cent, revoke the fiscal reform law, which commits the government to budget cuts, and topple the government of Mr Hashimoto. Although the opposition is united by its common opposition to Mr Hashimoto and its demand for greater measures to boost the economy, the broader divisions are still too great for it to pose any real threat to the prime minister.

Indonesia takes steps on reforms

By Sander Thoenes in Jakarta

Indonesia yesterday implemented part of its reform agreement with the International Monetary Fund with measures to ease trade and investment, salvage the ailing banking sector and encourage debt rescheduling.

With this package of measures, the government claimed it had met a first deadline in the agreement reached with the IMF earlier this month, and said it hoped the Fund would approve a second tranche of $3bn in standby credits on May 4.

The IMF office in Jakarta would not comment but the list of measures came close to delivering what had been expected.

The package lacked a decree to make loan loss provisions fully tax deductible, however, and its decree on bankruptcy applied only to Jakarta. The justice minister, Muladi, did not explain when a nationwide decree would be issued but said the capital would be a testing ground for the special courts that will rule on bankruptcy.

The government replaced a controversial ban on the export of palm oil products with export taxes of up to 40 per cent for crude, allowing one of the country's growth industries to earn export revenues again. Indonesia imposed the ban last autumn when a collapse of the rupiah made exports much more attractive than supplying to the domestic market at controlled prices.

Tanri Abeng, minister for state enterprises, listed seven state groups to be privatised, including a troubled steel mill, a coal mine, a lucrative plantation and a toll road company. The government was likely to opt for direct placement through limited tenders, he said.

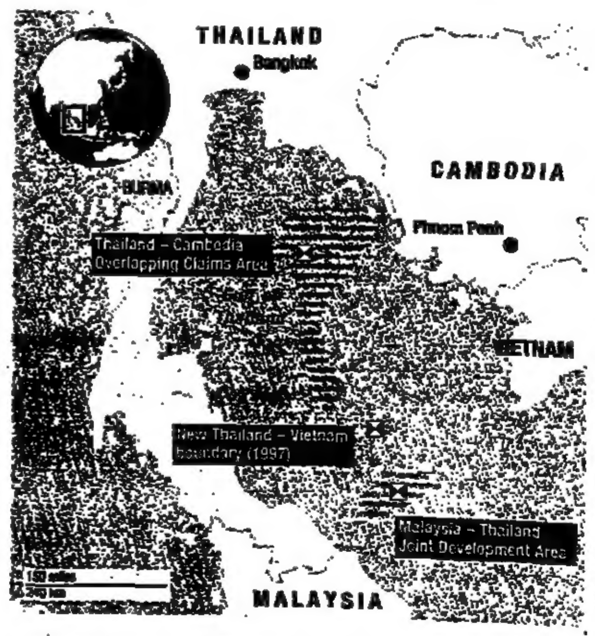
The central bank raised the commercial bank capital requirement to Rp250bn ($31m), a quarter of what it had planned. Officials changed their minds for fear of driving too many banks into the ground and discouraging bad loan provisioning.

The finance minister, Fuad Bawazier, also reported progress in encouraging some of the 54 ailing banks under supervision of a new state agency to recapitalise or merge. He said four private banks were about to regain independence, two state banks were to merge and a third would be recapitalised by the government. Central bank support for the banks is still rising, however.

"It's definitely good news that they're meeting conditions of the IMF," one market analyst said. "But we're still a long way from having the problem sorted out."

Malaysia-Thai gas deal may serve as model for SE Asia

Ted Bardacke reports on a deal to share a disputed offshore resource



It was the kind of occasion south-east Asia needs a bit more of these days. Yesterday Malaysia and Thailand put aside a long-running border dispute and agreed to share equally the natural gas jointly produced in an offshore area that both claim as their territory.

Witnessed by the countries' prime ministers, Mahathir Mohamad and Chuan Leekpai, a gas sales deal for the Malaysian-Thai Joint Development Area (MTJDA) ends two decades of negotiations over 7,250 sq km in the Gulf of Thailand rich in hydrocarbons.

The Petroleum Authority of Thailand (PTT) and Petronas of Malaysia will each get 50 per cent of the natural gas produced in the area – expected to be 640m cu ft a day beginning in 2001 – and jointly develop and run a pipeline and gas separation plant near the southern Thai city of Songkla.

While the region's countries bicker about how to disperse the thick smog covering much of south-east Asia and are unable to mount a common strategy to deal with the economic chaos, the MTJDA is a victory for co-operation – albeit bilateral – in the region. And the experience gained could serve as a model for defusing the tensions surrounding the myriad of overlapping claims between China and south-east Asian nations in the South China Sea.

But if the MTJDA is going to be used as a precedent to solve other disputes, rough going can be expected. The area was formally established in 1979 when both governments noted that "existing negotiations between the two countries on the delimitation of the boundary may continue for some time". It was not until 1991 that the agreement was ratified; it took three more years to award exploration concessions in the area.

"We had to adjust our legislation to allow for production sharing. It took a long time and a lot of willingness to compromise," says Mr Nopadon Mantajit, director general of Thailand's Department of Mineral Resources.

And despite its success, joint development is not the ideal commercial arrangement, says Prajya Phinyawat, president of PTT Exploration and Production, one of the MTJDA's contractors.

"The main difference is you are forced into a partnership ... and it's 50-50. The partners have to have the same objective or it doesn't work," says Mr Prajya. Thailand, for example, was unable to link production in the area with its main pipeline grid in the gulf, as some executives wanted. It had to keep the production in the south, where it could be shared with Malaysia.

Drawing a border is the route Thailand chose with Vietnam last year when it settled an offshore dispute that stretched back to 1973. In this case demarcation will allow for petroleum exploration, with either side required to give the other some revenue if an underground reservoir straddles the border.

Next on the list for Thailand is its large overlapping claims area with Cambodia. Thailand is awaiting a response for a new round of talks, which could begin after Hun Sen, the Cambodian premier, visits Bangkok in May. Mr Nopadon says Thailand is willing to explore either joint development or a border.

But if the joint development deals can indeed be done and there is growing experience in the region over how to reach such deals, can the experience in the Gulf of Siam be duplicated in the South China Sea?

Many government officials, petroleum executives and industry analysts are sceptical. For starters, the multilateral nature of the issue – at least seven countries have overlapping claims in the South China Sea, which both pits members of the Association of South East Asian Nations against each other and unites them against China – complicates matters.

"The more countries, the more complicated it gets. Even if they agree [on joint development] in principle, how are they going to divide it up?" asks Mr Nopadon.

"The MTJDA worked because it was small and has gas all over it. The commercial imperative helped carry it through," says an analyst at petroleum consultants Wood Mackenzie. "Perhaps if there were more potential in the South China Sea then you might see some movement. But commerce will only carry things so far."

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e-year break

banks ask for
yuan curbs

on bill

Indonesi
takes
steps on
reforms

POTENTIAL PRESIDENT APPROVAL OF IMPORTANT LEGISLATION LIKELY TO BE DELAYED BY FATAL HEART ATTACK OF LUIZ EDUARDO MAGALHAES

Second death upsets Brazilian reform hopes

By Geoff Dyer in São Paulo

The Brazilian government's programme of reforms has been thrown into disarray by the death of Luiz Eduardo Magalhães, the leader of the government in the lower house of Congress and the second important politician to die in 48 hours.

Mr Magalhães, who died on Tuesday night at the age of 43 after suffering a heart attack, was responsible for pushing the government's reforms through Congress and was considered a strong candidate for the presidential elections in 2002.

Coming two days after the death of Sérgio Motta, the minister of communications and the other government deal-maker with Congress, the news represents a setback for the government's economic reform plans.

In a measure of the importance of Mr Magalhães to the government, Fernando Henrique Cardoso, Brazil's president, cut short a four-day state visit to Spain to attend the funeral yesterday.

The deaths of Mr Motta and Mr Magalhães could delay the approval of important legislation, including reform of the social security system, until at least after October's general election.

Luiz Carlos Santos, who was minister for political co-ordination until last month's cabinet reshuffle, said it could be "very difficult to get the [social security] bill through in time this year".

Some analysts said Congress would be paralysed over the next couple of weeks while the political parties tried to come to terms with the two deaths. From June, Congress is expected to grind to a halt as politicians begin campaigning for the elections.

The social security bill is the central part of the government's strategy to tackle its large budget deficit, which reached 6.1 per cent of gross domestic product last year and which economists believe is the principal threat to Brazil's new-found economic stability.

Mr Magalhães, a deputy from the north-eastern state of Bahia, and Mr Motta were the central figures in the government's negotiations with Congress – Mr Magalhães in the legislature and Mr Motta from the executive branch of government.

However, Walder de Góes, a political analyst in Brasilia, said their deaths increased the chances of early approval of the reforms. "The politicians will turn out in huge numbers to vote next week as a way of honouring Luiz Eduardo," he said.

Mr Magalhães was being groomed by his party, the right-wing Liberal Front, the largest in Congress, to be its candidate for the presidency in 2002. The PFL's loyal support of Mr Cardoso was partly designed to make Mr Magalhães the president's natural successor.

Dispossessed farmers take shine off Mexican copper mining

Only a stay of execution on a court ruling can prevent the original owners of disputed land from recovering their property from a subsidiary of Grupo México, writes **Leslie Crawford**

For seven years, dispossessed farmers have been fighting the government and the biggest mining company in Mexico for a treasure nestling in the foothills of the Sierra Madre. Today, the farmers say their long legal battle will have come to an end.

Mexicana de Cobre, a subsidiary of the mining conglomerate Grupo México, last month lost an appeal to have its case heard before the Supreme Court, and has been ordered to return 1,500 hectares of expropriated land to the farming community of Pilares de Nacozari. Unless there is a stay of execution, the land must be returned to its original owners today.

The disputed property is the site of Mexicana de Cobre's La Caridad complex, which includes the largest copper mine in Mexico, a copper smelter and refinery, and a second refinery for precious metals that is under construction. La Caridad employs 3,500 people, produces more than half the country's copper output, and last year contributed $800m to Grupo México's total revenues of $1.2bn.

The farmers' victory, in a country where great wealth often bought political patronage and legal favours, is being hailed as a dramatic break with the past.

As a result of President Ernesto Zedillo's judicial reforms, Mexico's discredited courts are being encouraged to assert their independence.

But the ruling has also underscored the tenuous nature of property rights in Mexico, and is likely to unsettle domestic and foreign investors who have built fortunes on the country's shifting legal terrain.

The site of the mine has a long, chequered history.

In 1974, one-quarter of the *ejido*, or farming community, of Pilares de Nacozari was expropriated by the government of Luis Echeverría to make way for a mining complex, which was developed in conjunction with private mining investors, including the wealthy Larrea family.

During the debt crisis of the 1980s, the venture went bust and was placed in a government trust. When Mexicana de Cobre was privatised in 1988, Jorge Larrea offered the winning bid.

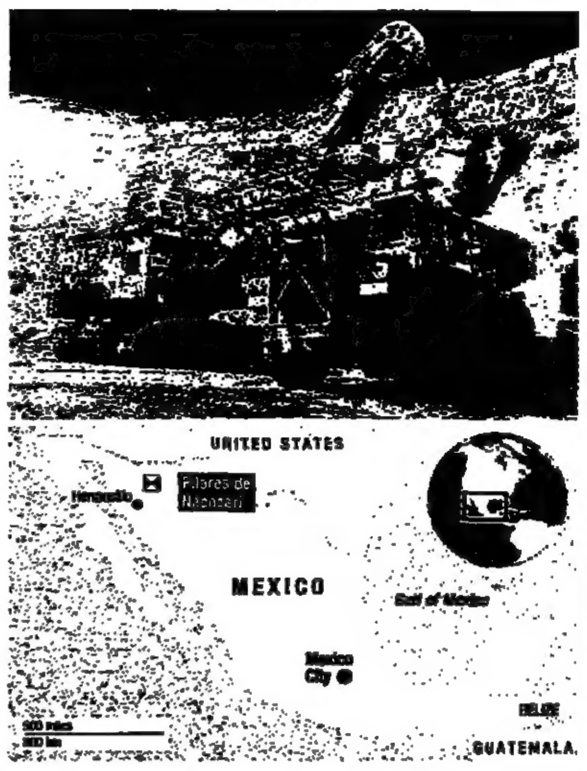
In another privatisation two years later, Mr Larrea acquired Cananea, the oldest copper mine in North America, and became Mexico's undisputed copper king.

Because of Mexicana de Cobre's economic importance, no one expected the *ejido's* grievances against the company to prosper. That they have owes much to Edmundo Rivera, the 47-year-old president of the *ejido*, who transformed the legal battle into a personal crusade. When Mr Rivera inherited his grandfather's ranch, he returned to Pilares de Nacozari to encounter a ghost town. The last copper vein at Pilares, mined since 1895 by the Moctezuma Copper Company of Douglas, Arizona, had petered out in the 1940s. The *ejido* had turned to cattle ranching on a government land grant, but the huge new mining complex built on their expropriated property was poisoning their streams and killing their cattle.

Mr Rivera, the only rancher with a college degree, was determined to make Mexicana de Cobre pay for the damage. He learned that under Mexican law, mining companies were obliged to pay royalties to owners of expropriated land. But he says Mexicana de Cobre refused to discuss the issue. "When I first threatened to take them to court," Mr Rivera recalls, "the company laughed at my impudence. They said I was a nobody and a madman and that I would fail."

In 1991, Mr Rivera's long pilgrimage through Mexico's court system began. Four years ago, the Supreme Court, represented by a collegiate tribunal in the state of Sonora, annulled the expropriation decree. But the government, which had sold Mexicana de Cobre to Mr Larrea for $1.3bn in 1988, tried to overrule the tribunal by ordering a second expropriation. The new expropriation decree was also thrown out by the Sonora court.

The latest court order has thrown the Mexican government into disarray. In effect, it has been ordered to return land it no longer owns. "There is a degree of social and political difficulty in complying with the Supreme Court ruling," says Hector García Quiñones, deputy minister of agrarian reform. "I cannot tell what will happen. There may be other ways to compensate the *ejido*."



Last month, however, the Ministry of Agrarian Reform notified Mexicana de Cobre of the court ruling and gave the company 30 working days "to remove... all possessions other than soil so as to restore the land to the community of Pilares de Nacozari".

"If Mexicana de Cobre does not comply with the Supreme Court ruling," says Rafael Acuña, the *ejido's* lawyer, "it will be in contempt of court." The company thinks differently. Sergio Ferrer, the company's legal counsel, said Mexicana de Cobre would not vacate its installations.

However, he declined to explain what steps Grupo México would take to defend its property. Despite Mr Ferrer's nonchalance, the dispute has come at an awkward time for Grupo México. Earlier this month, Grupo Minero México, the holding company for Grupo México's mining operations, raised $500m in long-term bonds among international investors.

At Pilares de Nacozari, Mr Rivera said the *ejido* was prepared to settle out of court. It will demand $200m to cover royalties it has not received and future compensation for the expected life of the mine.

Disney tries a real roar

By Richard Tomkins in New York

Walt Disney yesterday opened its biggest and most unusual theme park yet: the $800m Animal Kingdom, a safari park and adventure playground as part of its Walt Disney world leisure in Orlando, Florida. Animal Kingdom departs from Disney's earlier theme park concepts by relying on living animals as well as fake ones.

The park is the fourth to open as part of Walt Disney world. With the Magic Kingdom, Epcot and Disney-MGM Studios, it will help strengthen Orlando's position as the biggest tourist destination in the US.

Its centrepiece is a 110-acre safari park transformed by Disney from featureless Florida cattle pasture into a picture-perfect piece of African savannah.

Guests line up to ride in open-backed trucks which take them on a tour of the safari park. Disney says people probably see more elephants, giraffes, zebras, lions and crocodiles than they would on a genuine African safari.

Disney encourages the animals to be in the right place at the right time by placing tempting food at strategic points and restricting the animals' movements with well-disguised moats and barricades.

Leading Peruvian militant captured

By Sally Bowen in Lima

President Alberto Fujimori has confirmed the capture of Domingo Quinteros Ayllon, a leading militant in Peru's pro-Maoist Sendero Luminoso (Shining Path) guerrilla group. He was formerly a member of the group's inner circle and friend of Abimael Guzman, the guerrilla movement's founder-leader.

Mr Quinteros (alias "Comrade Luis"), said to be one of the movement's principal ideologues, was arrested in a Lima suburb together with three other Sendero militants.

All belonged to the so-called "Red" faction of Sendero, which comprises those militants still at large who have refused to give themselves up and bow to the peace initiative which Mr Guzman launched several years ago from his high-security prison cell.

Although Sendero Luminoso is no longer considered a threat to Peru's internal security, it has so far proved impossible to eliminate these small fighting bands of the Red faction or capture its leader, Oscar Ramirez Durand ("Comrade Feliciano"). The columns that survive are concentrated in the Upper Huallaga valley, where Sendero has long had a hand in the illegal cocaine trade and in the mountains between Ayacucho and the jungle of Apurimac.

Analysts say over the past year Sendero has been rebuilding a presence in the impoverished shanty towns around Lima and other big cities. Setting aside their former strategy of coercion and cruelty, militants have taken up popular causes such as complaints about water shortages or electricity tariffs in an attempt to ingratiate themselves and win status as local political leaders.

President Fujimori gave credit for the most recent capture to the joint effort of the counter-terrorist police, Dindote, and the national intelligence service, Sin.

ALGERIAN ECONOMY ONE-YEAR EXTENSION OF IMF PROGRAMME PROPOSED TO REASSURE CREDITORS

IMF urges Algeria to extend credit facility

By Roula Khalaf in London

The International Monetary Fund is recommending that Algeria takes on a credit facility for another year following the expiry next month of a three-year $1.5bn programme.

Although the IMF believes Algeria can withstand the decline in oil prices and the resumption of debt payments this year – having accumulated $8.8bn in foreign exchange reserves – officials close to the IMF say a 12-month extension of the current facility or agreement on another one-off credit would reassure creditors and investors and help relieve the uncertainty of the volatility in oil prices.

The Algerian regime has repeatedly insisted it does not need to renew the IMF facility. And, last March, the government made the first payment to commercial debt creditors since the 1996 London Club rescheduling, signalling that it would not seek another rescheduling this year.

Analysts, however, believe that the government may agree at least to a limited facility, which would not appear as a continuation of the IMF programme.

Algerian oil prices are about $3 below the Algerian budget projection for this year and the government faces a heavy debt service of nearly $5bn during 1998.

With the promised privatisation programme still failing to take off, the economy remains heavily dependent on oil and gas, which account for more than 95 per cent of foreign exchange revenues. A recent report by the official National Economic and Social Council found that non-oil and gas exports declined by more than 40 per cent last year to only $495m.

The council last week gave a sober analysis of the economic situation, warning of an aggravation in the social crisis. Ahmed Ouyahia, the prime minister, also admitted recently the government realised Algerians were living "a social hell".

The council said gross domestic product declined by 1 per cent last year, worse than projected, and compared with 4 per cent growth in 1996. The industrial sector registered another bad year, with a 7 per cent decline.

In a country suffering from an acute housing shortage, housing construction stagnated again last year, with the building of only just over a third of the 300,000 new homes needed every year to satisfy demand. This falls far short of government plans announced last year of creating 800,000 new homes by 2001.

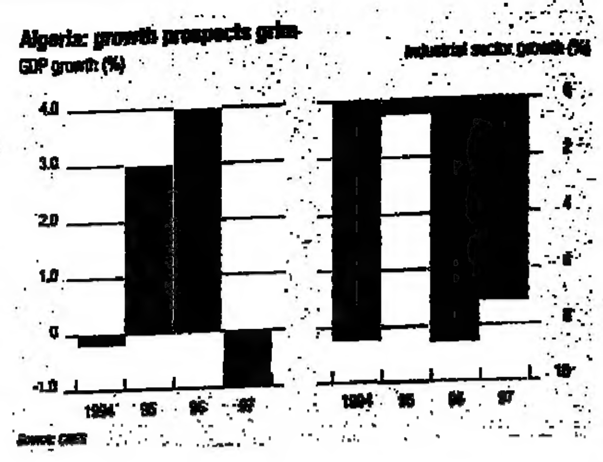
The council called for urgent policy decisions to stem social deterioration and rising unemployment. Officially, the unemployment rate is more than 28 per cent but is more acute among the young.

Some 96,000 workers lost their jobs last year as the government attempted to restructure or liquidate money-losing enterprises, said the council.

● The European Union yesterday criticised Algeria's continued refusal to allow United Nations rapporteurs on torture and extra-judicial killings into the country. In a non-binding declaration made at the UN Human Rights Commission in Geneva, the UK, representing the EU presidency, reminded the Algerian government of its obligation to co-operate with the UN Commission. A similar statement was made by the US.

Algeria was not officially on the agenda of the commission, in spite of human rights organisations' repeated appeals, and EU members failed to reach consensus on introducing a resolution to pressure Algiers into accepting UN investigators.

Mohamed Salah Dembri, Algerian ambassador, yesterday insisted that his government was committed to total transparency and to co-operation with the UN, and was presenting its reports on human rights to relevant UN committees. It was not excluding any initiative in coming months.



Egypt and Israel seek to mend relations

By Mark Huband in Cairo and Avi Machlis in Jerusalem

Egypt and Israel will attempt to break an 11-month cycle of worsening relations when Benjamin Netanyahu, the Israeli prime minister, visits Cairo next week under pressure to respect agreements on an Israeli troop withdrawal from Palestinian areas.

The visit, his first to Egypt since last May, will allow Hosni Mubarak, the Egyptian leader, to explain the Arab view that unless Israel withdraws its troops from areas of the West Bank by mid-June, as agreed in interim accords, the peace process will collapse. He will also convey the views of Yassir Arafat, president of the Palestinian Authority, who is due in Cairo on the same day.

Mr Mubarak's decision to invite Mr Netanyahu comes despite his public statement that he does not trust the Israeli leader. At the meeting, Mr Netanyahu will try to "make sure relations with Egypt are on a correct plane," according to an Israeli official.

The talks will follow a visit to the region this weekend by Dennis Ross, US Middle East peace envoy, and are in advance of separate meetings that Madeleine Albright, US secretary of state, plans to hold with Mr Netanyahu and Mr Arafat in London on May 4. An adviser to Mr Arafat said the flurry of activity represented a "desperate attempt by all involved to try to save the peace process".

When Mr Netanyahu returns from Cairo he will face increasing domestic pressure ahead of the London talks.

Israelis who plan to live at Har Homa, the controversial Jewish settlement in Arab East Jerusalem at the core of the peacemaking crisis, are planning a large demonstration at the site next week.

The demonstration – which settlers say would include 80,000 protesters – could spark new Israeli-Palestinian tensions ahead of the London meetings.

It could also prove embarrassing to Mr Netanyahu, since the rally is scheduled for the 50th Independence Day holiday next week and would deflect attention from the celebrations.

US in bid to win backing for oil route

The US hopes this week's Washington visit by Saparmurat Niyazov, Turkmenistan's president, will secure a key piece of the Central Asian energy puzzle – his concrete support for the western-oriented, US-preferred cross-Caspian pipeline, officials say. Reuters reports from Washington.

The visit, which includes a White House meeting today with President Bill Clinton, is the latest move in a year-long effort to rally backing for a Eurasian pipeline that would carry oil and gas from the resource-rich Caspian region to Baku, Azerbaijan, then to Ceyhan, Turkey, and western markets.

Mr Niyazov, who rules what US intelligence considers "the most repressive" central Asian state with an iron hand, is the last of the key Caspian leaders to visit Washington.

A leading lawmaker on Tuesday raised the possibility that the US may in some way have to subsidise the project but did not define how the aid might be constructed.

"It may well be that we have to come up with additional funds to supplement the additional cost," to oil companies of the longer pipeline route, House appropriations committee chairman Bob Livingston told a news conference.

Mr Livingston, a Republican from Louisiana, and Senator Sam Brownback of Kansas, visited the region this month. Both said they were convinced that for security reasons the pipeline should head toward the west. "We believe that it is important to guide these pipelines to areas will be relatively stable," Mr Livingston added.

While estimates vary widely, the Caspian Sea is potentially one of the world's most important new energy producing region. US officials have said it may never rival the Gulf, but Caspian production can have important implications for world energy supplies on the margins.

More broadly, the officials have argued for rapid development of Caspian resources and trade links as critical to US strategic goals, including stability, independence, prosperity and democracy in all the region's countries.

If internal and cross-border conflicts flare, "the region could become a breeding ground of terrorism, a hotbed of religious and political extremism and even a battleground," Strobe Talbott, deputy secretary of state, has predicted.

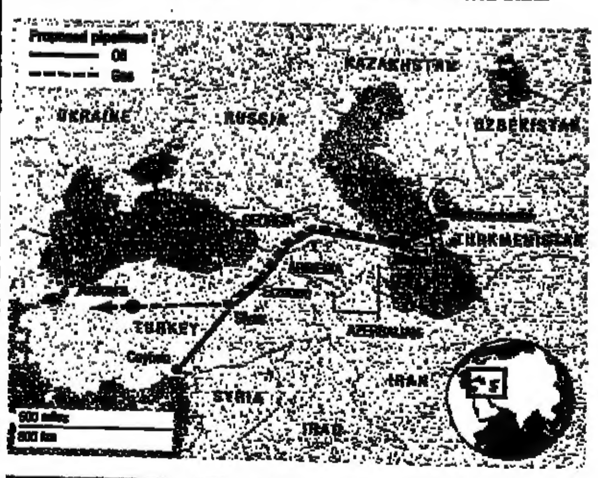
The US has repeatedly insisted it wants to avoid a replay of the 19th century "Great Game" meddling of world powers in the Caucasus and Central Asia.

Its aim is to promote a "framework" in which former Soviet states on the Caspian Sea littoral – Azerbaijan, Kazakhstan, Russia and Turkmenistan – can profit from their energy interests and work co-operatively.

But fostering opportunities for US energy companies is an even more compelling goal, as well as ensuring that Iran, in particular, and Russia do not wield commercial and geopolitical power that can thwart US interests.

US officials feel they are making progress with the Baku-Ceyhan option. "We're in better shape than we were a year ago but it's still quite hard," in part because companies must consider underwriting the multibillion dollar project at a time of falling oil prices, a senior official said.

Some Russians oppose the Baku route, but Moscow has told Washington it agreed Iran should not be allowed to dominate regional energy routes, the official said.



Rwanda to execute 33 for genocide

Rwanda will stage its first executions tomorrow for crimes of genocide, publicly putting to death 33 prisoners convicted after the slaughter of an estimated 800,000 people in 1994, Reuters reports from Kigali.

It said the executions, which diplomats expect to be carried out by firing squad, were ordered at a special cabinet meeting when President Pasteur Bizimungu turned down pleas for amnesty.

The public was invited to watch the executions in a soccer stadium in Kigali, the capital, and four other towns.

A cabinet communiqué said: "This will act as a lesson to people who do not respect the life of others," it said. Radio Rwanda broadcast the government's warning against Hutu militiamen "still bent on pursuing genocide".

Rwanda began its genocide trials in December 1996 and has condemned scores of people to death for taking part in the three-month orgy of killings by Hutu extremists. An estimated 800,000 ethnic Tutsis and moderate Hutus were killed in the genocide, which ended when the former Hutu government was driven from power by rebel forces.

Rwanda's prisons are packed with about 130,000 prisoners – overwhelmingly Hutus – awaiting trial for the genocide.

The no-nonsense process at the Rwanda trials, which are often over in a day, contrasts sharply with the slow pace at the International Criminal Tribunal for Rwanda, a United Nations court trying the ringleaders.

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US in bid to win backing for oil route

Rwanda to execute 33 for genocide

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ST Aero revives hope for aircraft project

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UK urged to tighten gun export curbs

By Alexander Nicoll, Defence Correspondent

Pressure is growing on Britain to tighten its export controls for guns and other small arms because of evidence that weapons from the UK are found in violence-ridden developing countries.

A report published today by the development agency Oxfam accuses the government of dragging its feet on fulfilling promises to overhaul the export licence control system and to publish full data on arms exports.

The charity's criticisms will add weight to concerns within the Clinton administration that weapons shipped to the UK are re-exported to other European countries, from where they find their way to strife-torn countries and into the hands of criminals.

A US embassy spokesman in London said Washington had decided to revoke outstanding licences to companies for exports of handguns to the UK because Britain's recent ban on handguns meant they could not be intended for use in Britain. He could not give a figure for the number of licences outstanding.

Washington was also prepared to act on licences for exports to other European countries if Europe did not halt re-exports to other countries. Companies which exported guns to countries not specified in the original export licence were violating US law, he said.

The UK government described the Oxfam report as "disappointing and unfair". A Foreign Office official said the Labour government was committed to greater transparency and believed its export controls were "to the highest standards".

The official noted that the UK, as current president of the European Union, was leading negotiations on an EU-wide code of conduct on arms exports and hoped that EU foreign ministers would discuss the issue next month.

It also shared Washington's concerns about proliferation and illegal trafficking of small arms and was working with the Group of Seven industrialised countries and Russia on a joint statement of principles and action.

Oxfam said Britain was a "key player in the world's small arms business" and had exported small arms to more than 100 countries between 1995 and 1997, including 42 in which Oxfam was working. Half of UK small arms exports were to countries suffering political violence or conflicts, it said.

It called for much more transparent statistics to be published; for a single UK arms control agency to be set up; and for a National Audit Office report on the effectiveness of the export control unit in the Department of Trade and Industry.

The DTI is working on new legislation on strategic export controls, following recommendations in the Scott report on arms exports to Iraq, and expects to publish a white paper in the next few months.

Kenyans flee tear gas during protests last July. Amnesty International accuses Kenya of misusing British-supplied anti-riot products

Countries receiving UK small arms and related products/conflict zones

Region	No. countries receiving small arms, ammunition, related products	No. countries identified as 'conflict zones'	Per cent of countries supplied with UK small arms that are 'conflict zones'
Africa	27	19	71
Asia	19	9	52
L America & Carib.	24	10	40
Middle East	16	5	30

Source: Oxfam

US to press China on direct selling ban

By James Kynge in Beijing

China has issued a ban on direct selling, hitting the operations of US companies such as Amway, Mary Kay and Avon, and creating trade friction ahead of a planned US-China summit in June.

The issue is expected to be raised by Charlene Barshefsky, US trade representative, who was due to arrive in Beijing yesterday for talks with senior Chinese officials. Ms Barshefsky is expected to argue for a review of the ban.

The prohibition by China's state council (cabinet) said that consumers in the domestic market were not mature enough for direct selling, which typically involves people trying to re-sell the goods they have bought from companies such as Amway and Avon.

In addition, criminals have seized on the direct selling concept to create cults, spread superstition and carry out illegal activities, according to the prohibition order.

Even some government officials, Communist party members, teachers and soldiers have been turned into sales people, it added.

Companies engaging in direct selling in China have until October 31 to wind up their business or apply to change their licence for that of a regular retailer, the state council edict said.

The announcement was a blow to the considerable interests of direct selling companies, which have built up significant businesses in China and are backed by powerful lobbies in the US. The issue stands out as a rare area of friction in a bilateral relationship which appears to be warming ahead of President Bill Clinton's summit in Beijing with Jiang Zemin, his Chinese counterpart.

Amway has a registered capital of around $100m in China and a 58,000 sq m factory in Guangdong province. It registered sales of $178m in the year to August 31 1997 and $65.2m in the first half of the 1998 fiscal year.

Richard Holwill, director of international government relations at Amway, said he was confident the company could remain in business in China, although perhaps in a somewhat modified form.

"We are working with the government to revise our business strategy," Mr Holwill said. The company had stopped selling to new distributors but existing distributors were still permitted to buy.

Mr Holwill and western diplomats in Beijing argue that it has not been the practices of US companies in China that has given direct selling a bad name. Rather, it has been Chinese con artists touting chain letters, pyramid savings schemes, panaceas and elixirs which have besmirched its reputation.

The proliferation in freelance Chinese direct selling operations has been such that the state administration for industry and commerce, which regulates the distribution industry, has closed down 570 unlicensed direct sales companies, investigated 2,500 cases of illegal direct sales and seized Yn70m ($8.5m) of goods.

Newspapers have carried reports of people, some of them sacked workers, who have signed up as direct sales agents in a desperate attempt to get rich. Many of them lost everything.

ST Aero revives hope for aircraft project

By Michael Skapinker, Aerospace Correspondent

The head of Singapore's aerospace company said yesterday his group was still prepared to help China and Airbus Industrie build a 100-seat jet, provided the project was financially viable.

Lim Chin Beng, chairman of Singapore Technologies Aerospace (ST Aero), denied that his government-controlled company had withdrawn from the 100-seat project.

"We have not really said 'No'. What we've said is that we'd like to see the feasibility study," Mr Lim said.

Aviation Industries of China (Avic), Singapore Technologies and Airbus, the European consortium, signed a contract to develop a new 100-seat jet last year. Airbus said earlier this year that the project was in trouble after Singapore questioned its viability.

But Mr Lim said ST Aero was waiting for Airbus to finish a feasibility study before making a final decision.

"If we are to go in, it's got to be a profitable venture. That's the crux of the matter," he said.

Mr Lim said the Asian financial crisis had not increased ST Aero's doubts about the viability of the project. "That's not a factor. This is a long-term project and we are confident that the Asian crisis will pass."

The leaders of China and France both added their support for the 100-seater earlier this month. During a visit to France, Zhu Rongji, China's prime minister, told French president Jacques Chirac that his government regarded the project as important. Mr Chirac's spokeswoman said France supported the Chinese position.

China's choice of Airbus as its partner on the project was seen as a victory for the European consortium over Boeing of the US. Boeing had lobbied China heavily to be its joint venture partner in building a 100-seater.

Boeing subsequently decided to build its own 100-seater, the Boeing 717, adding to the pressure on the Airbus project. The 717 is based on the MD-95, which was developed by McDonnell Douglas. Boeing bought McDonnell Douglas last year. However, Boeing has had to delay flight testing on the 717 because of engine trouble.

Mr Lim also said yesterday that ST Aero, which maintains and upgrades aircraft and engines, was looking for joint venture and acquisition opportunities in Europe. He said ST Aero had held initial discussions with British Airways' engineering division and with companies in Germany, Holland and Switzerland.

WTO rules against Indonesia car policy

By Frances Williams in Geneva

The final report of a World Trade Organisation panel has upheld complaints by the US, the European Union and Japan that Indonesia's "national car" programme violates international trade rules.

The panel report, which was circulated to the parties this week, confirms earlier interim findings that the Indonesian programme is in breach of several WTO rules including those on non-discrimination, subsidies and investment measures.

The Indonesian government is bound to comply with the panel judgment unless, improbably, the findings are reversed on appeal. Indonesia claims that the scheme has already been abandoned as part of a deal with the International Monetary Fund in January on a $43bn bailout package, but this is contested by the complainants.

The 1996 national car programme grants sales tax and import duty exemptions to cars which meet given local content requirements. However, the only car authorised under the scheme is the Timor saloon produced by a company controlled by President Suharto's youngest son in co-operation with the now troubled Kia Motors of South Korea.

In the early stages of the programme, Kia Motors exported 45,000 fully assembled cars to Indonesia with the same tax and duty exemptions.

The WTO panel said the programme violated rules prohibiting investment measures conditioned on local content, as well as WTO commitments not to discriminate between trading partners or like products. Indonesia was also in breach of the subsidies agreement because the tax breaks enabled the Timor unfairly to undercut its foreign rivals in the domestic market.

Meanwhile, the WTO's dispute settlement body yesterday adopted panel and appeals body reports upholding a US complaint against Argentina.

Argentina was found to have imposed tariffs on textiles and clothing that exceeded its WTO commitment not to raise tariffs above a 35 per cent ceiling.

The statistical tax of 3 per cent on imports was also found in breach of WTO rules because it raised more money than the cost of providing the service. Argentina had claimed that the tax was needed to raise revenue in compliance with an IMF agreement but IMF officials told the dispute settlement body yesterday that it was Fund policy not to advocate measures inconsistent with countries' WTO obligations.

The dispute settlement body also yesterday adopted the panel report rejecting US claims that Japan's photofilm market was unfairly rigged against Eastman Kodak.

TRANSPORT OF NUCLEAR MATERIAL US-UK OPERATION DESIGNED TO THWART INTERNATIONAL TERRORISTS, PREMIER TELLS MPs

Blair defends secret reprocessing deal

By George Parker, Political Correspondent

Tony Blair, the prime minister, yesterday defended his secret deal with President Bill Clinton to reprocess and store Georgian nuclear material, insisting that the operation was designed to thwart international terrorists.

The prime minister insisted there would have been full disclosure of the transfer of 5kg of material to the reprocessing facility at Dounreay in Scotland once it had been completed.

He said the government had already drafted a House of Commons written answer giving details of the transfer, but details of the deal were leaked in advance to the New York Times.

Mr Blair's assurances in the Commons flew in the face of a briefing at his Downing Street, London, office on Tuesday, when a spokesman said that the nuclear deal would "probably not" have been disclosed if the press had not got hold of the story.

Speaking in the Commons, Mr Blair said: "We have followed entirely the normal rules for transportation for civil nuclear fuel." He said there were fears that rebels in Georgia might have taken over the civil nuclear reactor near Tbilisi and seized the material if the matter had been made public.

The government was forced to make an emergency statement on the deal, in which many MPs questioned the government's handling of the agreement which was reached in private by Mr Blair and President Clinton last year.

The material comprises about 5kg of fresh and spent highly-enriched uranium fuel, of which 0.8kg was irradiated. The choice of Dounreay was controversial because the UK Nuclear Installations Inspectorate has asked the plant to upgrade its facilities – which are currently incapable of reprocessing the fuel.

As a result the material will have to be stored at Dounreay, and the inspectorate said it was unable to say at this stage whether the plant, on the north coast of Scotland, would definitely win a licence to carry out the reprocessing.

"The total amount of intermediate waste that will be added to Dounreay is two drums' worth – there are already 14,000 stored there," Mr Blair said.

Most MPs supported the government's argument that the decision to accept the fuel was made in support of its policy on non-proliferation and our obligations to enhance security and safety.

But Alex Salmond, leader of the Scottish National party, said: "It would have its funny side if it wasn't such a serious issue.

"We've now got a government who think beef on the bone is too unsafe for people in Scotland to eat but that Dounreay, a plant which is totally decrepit, which hasn't reprocessed anything for the last 18 months because it's literally falling apart, is a convenient dumping ground."

See Editorial Comment

Penalties for smugglers to be tougher

By George Parker, Political Correspondent

Owners of pubs and restaurants caught selling illegally imported drink could have their licences revoked under a new government crackdown on a trade worth almost £1bn ($1.67bn) a year.

Dawn Primarolo, Treasury minister, said yesterday that smugglers of alcoholic drink from mainland Europe could also have their vans or cars confiscated if they persistently flouted the law. It is illegal to import excise goods acquired duty free or duty paid from another EU state and then sell them without payment of UK duty or VAT.

The new measures are designed to curb the trade, which cost the exchequer £860m last year, an increase of £50m on the previous year. The domestic drinks industry has become increasingly concerned that illegally imported alcohol is cutting into its market share.

Ms Primarolo, the minister responsible for customs and excise issues, said: "The government is committed to cracking down on tobacco and alcohol smuggling. Those caught smuggling will be dealt with severely, and people thinking of getting involved in this illegal activity should be warned."

Customs and Excise will take a particularly strong line against those businesses that sell cheap imported alcohol and will press for an immediate revocation of their licence to sell alcohol. Smugglers using a truck for large-scale transport of drink and tobacco could also have their operator's licence revoked.

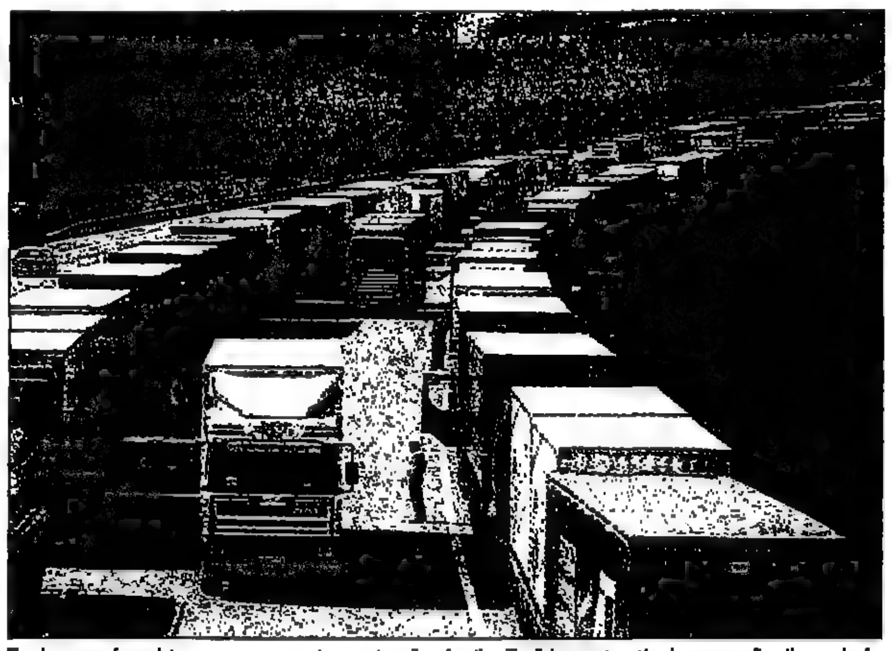
Ms Primarolo is also expected to announce within the next fortnight plans to dispose of seized goods and vehicles much earlier than now, saving the Customs some of its storage charges, which run at £2m a year.

Further resources are expected to be made available to the Customs this year to help catch offenders, following the conclusion of the government's spending review. But ministers believe the sanctions will have an immediate effect.

Vehicles used for cross-Channel smuggling of alcohol and tobacco can already be seized by customs, with a restoration fee of £250. Under the new regime that charge could rise to 50 per cent of the value of the seized goods.

For a second offence, the fee would be raised to £1,000 or a sum equivalent to 100 per cent of the seized goods; on the third occasion the vehicle could be confiscated.

The Customs is also expected to pursue a tougher prosecution policy. Over the last financial year, Customs officers caught 8,700 smugglers of alcohol and tobacco to the UK and seized almost 3,000 vehicles used in their activities.



Trucks were forced to queue on a motorway heading for the English coast yesterday even after the end of a strike at the French port of Calais. There were also queues in France and Belgium. David Ahmed

Workforce efficiency 'ahead in France and Germany'

By Robert Taylor, Employment Editor

The UK's productivity performance is far behind that of France and Germany and its productivity growth is due to working longer hours rather than more efficiently, according to a report published today by the Trades Union Congress.

The organisation also argues that UK investment as a share of national income is the lowest among leading industrialised countries.

The TUC study has been released to coincide with today's meeting between Tony Blair, the prime minister, and the leaders of the world's main trade union organisations including John Sweeney, president of the AFL/CIO in the US; Dieter Schulte, the German DGB union president; and Mikhail Shmakov, president of the Russian federation of independent trade unions.

The TUC report says British workers now work 9 per cent more hours than Germans as an annual average and 5 per cent more than the French. But productivity levels per hour worked in the UK are 20 per cent lower than in France and Germany.

The UK ranks 11th out of the 19 industrialised countries belonging to the Organisation for Economic Co-operation and Development in productivity growth between 1987 and 1995. That was above France and the US but behind Germany, Japan and Italy.

The report says that while UK productivity grew by 2.2 per cent a year in the 1990s, real wages improved by only 1.2 per cent. But UK profitability rose by 37 per cent over the same period. Last year the UK had the lowest share of investment in gross domestic product at 16.6 per cent of any large industrialised country compared with an EU average of 18.7 per cent.

The TUC's analysis indicates that the UK has far to go to bring overall productivity and investment levels up to those of its main competitors. It follows the report earlier this week from the Swiss-based International Institute for Management Development which showed that the UK's world competitiveness is lower than that of the Republic of Ireland though higher than Germany and Australia.

The TUC wants next month's jobs summit conference in Birmingham of the eight leading industrialised nations to commit itself to a new set of priorities to deal with under-investment and poor productivity.

N Ireland companies in plea to EU court

By Robert Rice, Legal Correspondent

Two Northern Ireland contractors who claim they were refused public works contracts because of their Roman Catholic connections, yesterday took their case against the UK government to the European Court of Human Rights.

John Tinnelly & Sons and McElduffs are challenging the existing national security provisions contained in Northern Ireland's fair employment legislation. Victory for the contractors in Strasbourg could force the government to change the law.

The contractors claim that because they were prevented by certificates issued by the UK government's Northern Ireland Office from challenging in court the refusal of public works contracts, they have been denied the right to a fair hearing as guaranteed by the European Convention on Human Rights.

John Tinnelly & Sons tendered for demolition work with the Northern Ireland Electricity Authority. In spite of making the lowest bid they were awarded neither the contract nor any sub-contract.

Believing they had been denied the contract on discriminatory grounds, they complained to what was then the Fair Employment Agency for Northern Ireland.

But they were prevented from pursuing their complaint by a certificate issued by the UK government under section 42 of the Fair Employment (NI) Act 1976 stating that they had been denied the contract on grounds of national security.

The McElduffs were named by another contractor as a company he intended to use on a contract with the Department of the Environment.

Security clearance was refused and the McElduffs complained to the Fair Employment Tribunal that the refusal of the subcontract was discriminatory.

A blocking certificate was then issued which had the effect of barring the tribunal from hearing the complaint.

The government contends that the decisions not to award the contracts were made in good faith for the purpose of safeguarding national security and that there was "no discrimination on the grounds of religious belief or political opinion".

The European court's decision is expected later in the year.

Defence group to protest over 'battlefield taxi' deal

By Alexander Nicoll, Defence Correspondent

Vickers, the engineering and defence group, plans to protest to members of the UK and German parliaments following yesterday's announcement that a consortium including its rival GKN had won a £3bn ($5bn) multi-role armoured vehicle contract.

The German, British and French governments said a consortium including Krauss-Maffei, MaK and Wegmann of Germany, Giat of France and GKN of the UK was the preferred bidder in the "battlefield taxi" competition against a grouping of Vickers with Alvis of the UK, Henschel of Germany and Panhard of France.

The announcement was a boost for GKN, which said the potential value to it would be £800m. UK officials said it would bring up to 500 jobs to GKN in future years. Full production will not commence until 2004.

The award for a contract for 5,000 to 6,000 vehicles – of which 600 will be built under the initial award – is likely to cause restructuring of the crowded armoured vehicles sector across Europe, and will renew speculation about a deal between GKN and Vickers.

Vickers, which noted that the contract remains subject to governmental approval in each country, believes there is disquiet among politicians, especially in Germany, about the handling of the tender.

Brian Trueman, a senior executive with Vickers Defence Systems, said: "Our biggest concern is that a major contract is being let without the building of pre-production prototypes."

Mr Trueman said the Vickers design for an eight-wheel drive (8x8) vehicle, submitted late after it became clear this format was favoured, would be cheaper than the winning 8x8 design. Vickers' original vehicle was 6x6.

Vickers is also unhappy that, when it raised concerns about the tender with the UK Ministry of Defence, it was simply referred to the German agency managing the procurement – in future, it is to be handled by Occar, the nascent European armaments agency. British defence ministry officials said the requirement for a vehicle with specified degrees of armoured protection had not changed during the tender.

See Editorial Comment

Record fines for Spanish trawlers

PA News Reporter in Haverfordwest

Twelve Spanish fishing companies and some of their employees were yesterday ordered to pay record fines and costs of more than £1m ($1.67m) for heavy over-fishing in British waters. The companies and their trawler skippers admitted more than 100 offences against European fishing regulations in the biggest such prosecution brought in a UK court.

The case followed a three-year investigation of Spanish-owned trawlers which were registered in Milford Haven, south Wales, to qualify for British quotas. Their catches, far above legal amounts, were landed in northern Spain.

Sentencing at Haverfordwest Crown Court in west Wales, Judge Martin Stephens said he hoped the fines would act as a warning to others. The companies and skippers admitted over-fishing, netting protected species and falsifying logbooks in which catches have to be recorded. The skippers were fined £36,500 each.

Fines levied against the skippers and their companies totalled £984,600 and the defendants were also ordered to pay a total £88,500 costs.

Manuel Garcia, skipper of Mera 1, who admitted over-fishing hake and monkfish, insisted outside the court the case would make no difference to "quota-hopping". "It is not possible to do things legally at the moment," he said. "When all this started we had a good situation because there were enough quotas for everyone. Now, too many things are against our people."

Sensitive software helps choose locations for pubs

Vanessa Houlder reports on how mathematical analysis and computers are transforming a national institution

The pub – that most traditional of British institutions – is not usually associated with innovative technology. Yet information technology is playing an intriguing role in the pub industry as thousands of old-style public houses are converted into themed bars.

Complex mathematical analysis and computer software are helping the large pub groups find locations with the right demographic profile for their brands.

The new brands have names such as All Bar One, Rat & Parrot, Brewer's Fayre and Chef & Brewer. Each has a distinctive ambience and style and is aimed at a specific group such as single women, students, young professionals, families and older people – all targeted by the large pub groups in an attempt to breathe new life into a declining market.

A company has to find sites with the best customer base for each brand. It needs to minimise harmful competition between the pubs while recognising that some types of pub benefit from proximity to others. For a large pub company with several different brands and many potential sites, the number of possible permutations is vast.

Few companies have grappled with the issue more thoroughly than Bass Leisure Retailing, which is spending £300m ($500m) a year on converting its pubs to new formats. It has 2,562 outlets and a dozen brands including O'Neills Irish bars, It's A Scream student pubs, Harvester restaurants, Vintage Inns and All Bar One.

The group has pioneered a computer-based approach using tools derived from research into artificial intelligence. The system was devised by Searchspace, a company that was spun out of the computer labs at University College London.

As well as the Searchspace analysis tools, Bass uses "geographical information systems" from Mapinfo, based in North Carolina. These business mapping tools make it possible to correlate data with geographical locations on a map.

Potential customers for the different brands are defined by factors such as age, affluence and car ownership. The size of a catchment area is defined by how far customers are willing to travel to reach a particular type of pub. Bass then compares its ideal catchment area with information from census and market research groups.

Comparing the attributes of the ideal location with each available site is extremely laborious. Clearly, it would be much easier if a computer could identify those sites that met the required criteria.

But until recently, it has been difficult to automate this process. Searchspace analysis tools use "fuzzy logic", which replaces the black-and-white choices of classical logic with a less rigid form of reasoning.

The software, used with the geographical information system, gives Bass a map that displays "hotspots" of promising locations and grades potential sites.

Bass has used the system in a number of ways. During the conversion of its existing pub estate, it helped it decide which pubs to convert to certain brands and which pubs to sell. It has also helped assess potential acquisitions. The software has been helpful in making detailed expansion plans. The system has special algorithms (mathematical processes) that show Bass where to locate new pubs so that each has the least adverse effect on another's business. For Bass, the next step is to use the system to estimate the potential turnover of each location.

Bass says the system has already saved it money by preventing errors. The cost, about £350,000, including £100,000 for the market research data, is comparable to the cost of fitting out a single pub.

"If you only save one mistake, it pays for itself," says Jim Cameron, national development manager for Bass Taverns.

NEWS DIGEST

'MAD COW DISEASE'

Vegetarian dies from new variant CJD

A woman who has been vegetarian for the past 12 years died yesterday from new variant Creutzfeldt-Jakob disease, the fatal human brain disorder thought to be linked to BSE, or "mad cow disease".

Clare Tomkins, 25, was diagnosed with nvCJD last August. The first clinical case of BSE was recorded in cattle in 1986 – a year after Clare stopped eating meat. At the time she was diagnosed, her father said: "When we told doctors Clare had been vegetarian since 1985, there were a few raised eyebrows. They were very, very surprised. Clare was a very strict vegetarian, though she did eat cheese and drink milk." Clare, who was engaged to be married, worked in the pet department of a garden centre near her home in Tonbridge, Kent, in southern England. She first showed signs of the disease in early 1997. She is thought to be the 22nd person to contract and die from so-called new strain CJD.

● The prime minister today rejected a call by William Hague, Conservative Party leader, to lift the ban on beef on the bone in spite of a court ruling in Scotland on Tuesday that the rules were defective. Mr Blair said in the House of Commons that the ban, introduced on the advice of the Chief Medical Officer Sir Kenneth Calman, must stay until there was evidence the BSE threat was receding. He said: "I don't believe, in the light of the history of BSE, that it would be sensible to act contrary to what was the strong advice of the CMO – and if you believe it would be right, I don't believe you are acting responsibly."

BRITISH TELECOMMUNICATIONS

Plans to lift broadcasting ban

The government is today expected to set out plans to lift the ban on British Telecommunications becoming a broadcaster, allowing it to provide services nationwide from 2001, a year earlier than anticipated.

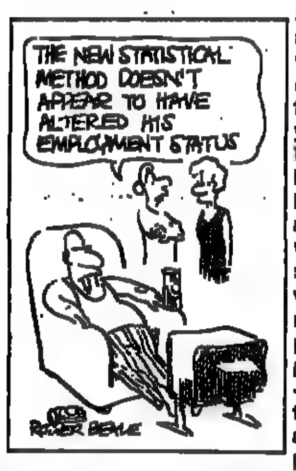
In a policy document before the election, the Labour party recommended that the ban, imposed by the Conservative government in 1991 to allow the cable industry to establish itself, should be lifted nationwide from 2002. By freeing BT from nationwide broadcasting restrictions a year earlier than anticipated, the government will displease many cable companies which are still sustaining heavy losses.

BT has argued that the ban is an anomaly as the company already offers internet services. Broadcasting over the internet is now widespread. Tony Blair, the prime minister, committed the Labour party to ending the broadcasting ban in his party conference address in 1995. He said BT had agreed to wire up schools to the internet if the restrictions were removed. The Conservatives accused Labour at that time of "cosying up to" BT. **Cathy Newman, London**

See Lex on Companies & Finance: UK

EMPLOYMENT

Demand signals slowdown



Declining demand for workers and stable growth in earnings were greeted as signs the UK economy was slowing, after the publication of new figures yesterday. The Office for National Statistics said the fall in unemployment has slowed in recent months, while average earnings growth over the whole economy was "broadly stable". The ONS's new survey-based unemployment measure – the number of people saying they are unemployed and available for work – showed a fall of 52,000 in the three months to February, a rate of 6.4 per cent. In the previous three months the rate was 6.6 per cent. The number of people out of work and claiming benefits in March was also lower, the ONS said. The claimant count fell by 6,400, the smallest shortening of the dole queue since October 1995. March's fall was well below the average fall of 17,000 during the last six months. The total number of jobless claiming benefits is at a 17-year low of 1.37m. **Richard Adams, London**

DIGITAL NETWORKS

Plea over music copyright

Record executives are pressing the government to accelerate efforts to amend copyright legislation to protect intellectual properties, including music, when distributed on digital systems.

Delivering music to consumers on digital networks, such as the internet and high-speed cable television systems, is expected eventually to command a substantial share of the music market. Existing copyright law gives very little protection to music and other intellectual properties when distributed electronically, thereby leaving musicians and record companies prey to piracy.

Music executives aired their concerns about digital piracy to ministers and civil servants at a meeting this week of the Music Industry Forum, an advisory group created by Tony Blair, the prime minister. **Alice Rawsthorn, London**

INTERNET ADVERTISING

Online values 'to top $835m'

The introduction of digital television and the emergence of consumer goods companies as major online advertisers will see the value of internet advertising in the UK soar to almost £500m ($835m) within the next five years, a survey predicts today. According to Fletcher Research, the London-based media research company, online advertising will grow at a rate of about 7 per cent a month between 1998-2002.

With most UK companies still wary of using the internet as a marketing tool, the value of advertising transactions between internet publishers and advertisers was only £8m last year, although it is expected to reach more than £15m this year.

However, the arrival of digital television is predicted to transform the business. The four companies competing to offer digital services are expected aggressively to market to households the internet applications of the new technology. Internet advertising in the US is now growing at a rate of 12 per cent a month and is likely to be worth well over $1bn by the end of this year. **Patrick Harverson, London**

SPORTSWEAR

Soccer body delays deal

The Football Association has not yet decided whether to sign a new £50m ($83.5m) England team kit deal with Umbro, even though the UK sportswear group believes it has provided enough guarantees of its financial strength to reassure the FA.

The association requested extra guarantees because it had become concerned about Umbro's position following a refinancing and restructuring of the group by its US-based parent, Stone Manufacturing. **Patrick Harverson, London**

هكذا من الأصل

CINEMA: MORALITY IN MODERN AMERICA

Bowled over by cautionary tales

The Coen brothers, director Joel and co-writer Ethan, may not have much in common with Hitchcock, but they share the old master's ability to buttonhole an audience into complicity with the cinematic equivalent of "once upon a time". *The Big Lebowski* starts with a tumbleweed ball rolling through the desert, along *nocturnal* urban boulevards, on to a seashore. The voice-over narrator sets the tone, an old-timer who sporadically manifests himself to our amiably slobbish anti-hero like a sort of guardian angel. He ends the story by reminding us how lovable the very un-big Lebowski *is*. Have the ironic Coens fallen for their own usually detached irony? There's a cosiness lacking in their similar *Fargo*. But it's still the week's most sheerly enjoyable movie; the most successful fairy-tale in a batch of modern American morality plays.

Jeff Lebowski, *aka* "The Dude", is a weed-smoking, vodka-downing relic of the student radical 1970s, now bumming through an agreeably unemployed life centred on the local bowling alley. Confusion with another Lebowski, a crippled millionaire philanthropist, leads to labyrinthine complications: kidnapping, mutilation, the pornography industry . . . The Dude weaves his way through the plot's twists and turns like a spaced-out Philip Marlowe.

Be reassured: the film's repellant poster depicting a foot with a severed toe is the nastiest thing on show. The movie takes its cue from Jeff Bridges' laid-back and frequently zonked-out detective *malgré lui*: a comedy thriller that is actually funny. There are predictable jokes – you can spot the deceased's ashes blowing in the mourners' faces a mile off – and dream sequences give the impression of padding. But the film's cheerful good nature scores palpable hits along the way, finely acted by a cast including some of the Coens' regulars. John Goodman is bulldozingly good as The Dude's sidekick: a Vietnam-obsessed veteran whose mania for meticulously disastrous plans of campaign evokes a bull charging a gate.

THE BIG LEBOWSKI
Joel Coen

THE RAINMAKER
Francis Ford Coppola

U-TURN
Oliver Stone

US MARSHALS
Stuart Baird

HAPPY TOGETHER
Wong Kar-Wai

Steve Buscemi is the third of these unlikely musketeers of the bowling alley, gently goofy, on his own little cloud, several steps behind the conversation. Julianne Moore is memorable as the millionaire's crisply conniving daughter with her own feminist agenda and an avant-garde art gallery to match. And there is a hilariously earnest gang of German nihilists, whose grimly-delivered orders in a pancake house are satire of clashing cultures at its most accurate. Led by Peter Stormare and replete mit cherman accents, they also threaten to cut off our hero's Johnson (don't ask) and "*stemp on it and skvash it*".

Another fairy-tale, this time from the pen of John Grisham, directed by Coppola. *The Rainmaker* is familiar Grisham territory: legal David versus vested interest Goliath, fought out in the arena of the law. Young Rudy, barely qualified, champions dotty widows, *beaten wives*; and he pursues the hatchet-faced, flint-hearted insurance companies who refuse to pay out on the fatally ill. Matt Damon confirms a real acting talent as the lawyer whose physique must be as robust as his moral sense to withstand having a kitchen dismantled and hurled on him to little visible effect.

But then the good are very good (black ivy league-educated judge hot on civil rights), the drudgery remarkably easy (Danny DeVito is a treasure as the sidekick who produces vital evidence by simply examining the corporation's rubbish bin); and the plot is guilty of breath-taking "with one bound he was free"-ism, when Rudy lets the abused wife take the blame for the husband he himself killed, and in an almost perfunctory postscript we are assured that she won't be prosecuted. I fear for their future life together.

The Rainmaker is a formulaic pot-boiler, decently acted, notably by Mickey Rourke, smoothly shark-like as a legal shyster, and Jon Voight, a company lawyer flush with high living.

Voight is less probable as a blind, oracular Apache in *U-Turn*, Oliver Stone's overblown tribute to *film noir*. This mind-numbing blow to Arizona's tourist industry swelters its interminable way through the single day (symbolic?) spent by Sean Penn trying to escape the hell-hole small town where a car break-down has trapped him. His money stolen, beaten up by a manically jealous youth (the one touch of humour), hired by each partner in a tortured marriage to kill the other, already nursing the stumps where gangsters have removed two fingers, and evading the Russian gambling mafia, Penn endures all with minimal facial exercise and no noticeable character. Put-upon victim at first, he calmly acquiesces in murder and lends himself to the plot's twists, predictable in their very improbability, until one no longer cares. This is a knowing, sophisticate's view of *film noir*: mannered, heartless, kitsch.

US Marshals it says and US marshals is what you get. In a sequel to *The Fugitive*, Tommy Lee Jones hits the road again with his nicely-characterised band of law-enforcers. Within 20 seconds of Stuart Baird's film starting, we have a smashing (in all senses) car crash. Shortly after, a hole blown in the fuselage of the pressurised cabin causes a plane to catch fire and end belly-up in a river. Only half an hour after exhausting the dangers the four elements can hurl at us does the story proper get under way. "We got a fugitive," intones Jones; and Wesley Snipes, accused of murder, is on the run.

A *gripping yarn swiftly* if circuitously told, the film suffers only from the wham-bam syndrome, moving too fast to build up tension. (Hitchcock would have relished the image of someone in a giant chicken-suit, handing out free samples to passers-by, drawing a gun from inside the costume.) Jones redeems all: he plays the ruthless pursuer with the faintest hint of send-up, the merest suggestion of camp. Likeably unpretentious, the film enjoys an unexpectedly distinguished cast including Kate Nelligan, Tom Wood (*Ulee's Gold*) and Robert Downey Jr. Only Irene Jacob looks bewilderingly out of place, especially when scrambling through a climactic cemetery chase in a little black cocktail number.

Happy Together won the best director award at Cannes last summer. Despite switching not entirely convincingly between grainy black and white and colour, the story of two Hong Kong gays in Argentina works hauntingly well. Director Wong Kar-Wai (of *Fallen Angels*) evokes disorientation both geographical and emotional, the isolation resulting when a failing relationship throws a feeling of alienness into relief. Beautifully photographed by Chris Doyle, the film's gently understated metaphors of searching and exploration linger on.

Martin Hoyle

Laid-back and zonked-out: Jeff Bridges as The Dude in 'The Big Lebowski'

Dance for grown-ups

Clement Crisp reviews Tango Por Dos

It is the simplest formula in dance-theatre: fine dancers, fine musicians, and no decorative tra-la-la. In the case of the Tango Por Dos troupe, now happily returned to London for a three week season at the Peacock Theatre, it means that seven musicians are *seated at the back of the* stage (very well lit) and a chain of tangos, danced and sung, slink and swoop over the stage in front of them.

Nothing else is needed. What holds us enthralled is the knife-flash of legs, scissoring the tiny space between the couples, the way the women's feet can caress the floor, the bite and kick of the tango rhythm and the sometimes acrid, sometimes swooning sonorities of the music, and the ritualised sexuality of the dance.

***I* think the tango fascinating – because of its ability to seem at once both blatant and hieratic; because of its tight structure on which dancers and musicians erect fascinating shapes of melody and step; and because it seethes with emotion.**

The four couples whom we watch, and Miguel Angel Zotto who is director and leading man, are tremendous performers. The musicians are, it needs hardly to be added, no less tremendous: the link between dance and score is important and, in this show, the twinning is positively Siamese. There is also an admirable singer, Roxana Fontan: I didn't understand a word she sang, and I believed her utterly.

***The* ingredients are what we expect: fedoras and silk-scarves, natty suiting, the last pair of spats in captivity, a certain amount of cross-dressing (sexual ambivalence is a sudden, vivid flavour in this tango brew), skirts slit to the hip, and the blank gaze that does not mask the eroticism of what the legs and body are signalling. (The men adopt the saurian-chic manner and patent-leather hair I associate with George Raft's screen persona: when they dance together it is like a meeting between Mafia bosses).**

The dances are cleverly varied. Only one number fries, and fails, to be cute about a pig-tailed girl and a footballing chap. The performers are blazingly good. Men, not boys – the tango is for grown-ups – and women who are beautiful, and beautifully aware. The tango's roots in urban dance-halls and brothels gives a lingering identity to its interpreters, and under the vastly stylish skills of these artists we can sense the dance's social force. An unashamed tango-freak, I salute the evening as an ideal view of the tango's richness and its insidious power. The music is intoxicating – difficult to sit when the band is luring us to our feet – and intoxicatingly played. Irresistible.

Peacock Theatre, London WC2.

Housewife in need of a break

THEATRE
IAN SHUTTLEWORTH

Dame Edna: The Spectacle
Theatre Royal, Haymarket

Reviewing Julian Clary's show late last year, I expressed surprise and relief that Clary, when mocking his audience, was not as cruel or humiliating as Dame Edna Everage. On finally seeing the housewife megastar herself on the London stage, I felt surprise, relief and also a little disappointment that, well, neither is Dame Edna any more.

She may accuse one punter of smelling like a week-old J cloth, she may question couples in minute detail about their babysitting arrangements whilst they are in the Haymarket stalls . . . but the audience *Schadenfreude* which Edna can still muster is directed, not at the embarrassing titbits which punters are wheedled to reveal, but simply at the fact that they are coming in for such lengthy attention. (On the press night one woman, overjoyed to be picked out, was quickly dispatched in favour of more fertile cringe material.)

The classic Edna approach – "Verbal Intercourse", as the programme has it – is displayed only after the interval. That other Barry Humphries creation, Sir Les Patterson – as vile, droolsome, and to me as unfathomable in his appeal as ever ("I've never hit Row G before!" he announces proudly after one prize splutter) – introduces the first *half of the three-hour show*, consisting of "Musical Foreplay", in which an ammeless Edna is regressed not only to her own childhood but to her forebears' era. Some of Kit Hesketh-Harvey's lyrics are deliciously streaked with artificial colouring – unlike the Everage hair, which is quite natural: "Why am I mauve?/What is it I lack?" bemoans her several-greats-grandmother in song; "Where'er I rove/I come out lilac" – others merely serviceable.

But what we want is the *celebrated Humphries* acidity. Strangely, some of its finest appearances pass most of us by: when Humphries appeared as Rupert Murdoch, and even managed to slip in a topical gag about his marital separation, an opening-night audience which included Conrad Black, David Frost and Andrew Neil remained strangely muted. Dame Edna herself appears trapped in a three-way quandary: either stick with material which has proven successful in the past but whose edge is now blunted by familiarity; be seen to be taking possibly too much of a back seat as in the musical first half; or raise the stakes – as with the kitsch canonisation of the finale – to a level which looks excessive even in an Everage context.

More humiliation: Barrie Humphries as Dame Edna

Manchester hosts new music festival

Manchester is playing host to the International Society for Contemporary Music, which is celebrating the 75th anniversary of its first festival. That was in Salzburg; *since then the annual festival* has moved from capital to capital – mostly in Europe, but sometimes further afield: Haifa, North America, Tel Aviv, Seoul.

For an official body with representatives from much of the world, the ISCM *boasts a remarkably impressive* track record. Major works as disparate as Berg's violin concerto and Poulenc's two-piano concerto have had their first performances under its auspices. There have been duds too, of course: even the most scrupulous ISCM jury cannot be prescient. The "ISCM World Music Days" remain, nevertheless, a forum like no other.

This is the sixth time that the festival has been held in Britain. The host country usually gets generous time for its own composers. I well remember the 1962 affair, when foreign delegates were impressed by Peter Maxwell Davies' string quartet, bemused by Tippett's new *King Priam and distinctly* embarrassed by Britten's old violin concerto.

More than 50 works selected by this year's jury, from many countries, are being performed in Manchester. The "world premieres" are mostly of smaller pieces, though the festival will conclude on Saturday with the first integral performance of Elliott Carter's *Symphonia*. Thus far, the deepest impressions have been made by two composers from – appropriately – what used to be called "the Manchester school", Maxwell Davies and Harrison Birtwistle.

Davies himself conducted the BBC Philharmonic in the opening concert last Friday. His *Worldes Blis*, a single slow, agonised movement lasting over half an hour, famously horrified a Prom audience 30 years ago. Now it sounds like a gritty masterpiece: sullen and rebarbative, maybe, but relentlessly gripping – and closer in spirit to Mahler than anything Davies has composed before or since.

Birtwistle's recent *Pulse Shadows*, a cycle which alternates nine movements for string quartet with nine *settings of* Paul Celan's melancholy poems for soprano and another ensemble, commanded general awe and admiration. Claron McFadden was the superb soloist, her partners the Arditti Quartet and the Nash Ensemble, who were equally searching in this luminous score.

Birtwistle's reputation for wielding forbiddingly large forces is one-sided: the general public hears less of his transparently etched chamber music, and *Pulse Shadows* is the peak of it. None of the younger composers' music heard in Manchester so far has been on that level, though there are encouraging sparks. There is a lot still to come.

David Murray

INTERNATIONAL
Arts Guide

AMSTERDAM
EXHIBITIONS
Stedelijk Museum
Tel: 31-20-5732911
www.stedelijk.nl
Walter Pichler: Drawings: Sculptures: Buildings. Installation by the Austrian artist of work which challenges the boundary between sculpture and architecture; ends on Sunday

BERLIN
CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Claudio Abbado in works by Mozart, Rihm, Brahms and Schumann; Apr 25, 26, 27

DANCE
Deutsche Oper
Tel: 49-30-34384-01
La Sylphide: revival of a production designed by David Walker and directed by Peter Schaufuss, after August Bournonville; Apr 25, 28

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Der Prinz von Homburg: by Henze. Conducted by Christian Thielemann in a staging by Götz Friedrich; Apr 24
● Lohengrin: by Wagner. Revival of a production conducted by Christian Thielemann and staged by Götz Friedrich; Apr 26

BIRMINGHAM
CONCERT
Symphony Hall
Tel: 44-121-212 3333
Ivo Pogorelich: recital by the pianist of works by Rachmaninov, Granados, Prokofiev, Schumann and Chopin; Apr 23

BOLOGNA
OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
Don Pasquale: by Donizetti. La Scala production conducted by Maurizio Benini/Roberto Polastri in a staging by Stefano Vizioli. Cast includes Ruggero Raimondi; Apr 28

CHICAGO
CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: American premiere of Carter's Clarinet Concerto, conducted by Pierre Boulez with clarinet soloist John Bruce Yeh. The programme is completed by Mahler's Symphony No. 1 in D Major; Apr 23, 24, 25, 26, 28

COPENHAGEN
EXHIBITIONS
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
Francis Bacon: major retrospective, including loans from around the world; ends on Sunday

FLORENCE
OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
The Lady Macbeth of the Mtsensk District: by Shostakovich. New production by Lev Dodin, conducted by Semyon Bychkov; Teatro Comunale; Apr 24, 26, 29

FORT WORTH
EXHIBITION
Kimbell Art Museum
Tel: 1-817-3328451
www.kimbellart.org
Renoir's Portraits: Impressions of an Age. More than 60 paintings spanning the artist's career, of subjects including Claude Monet and Madame Renoir; ends on Sunday

FRANKFURT
CONCERTS
Frankfurt Oper
Tel: 49-69-21202
Warsaw Radio Symphony Orchestra: conducted by Wojciech Rajski in works by Beethoven and Dvořák. With piano soloist Olli Mustonen; Apr 26

HELSINKI
OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Mikko Franck; Apr 24, 29

LONDON
CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by Michael Tilson Thomas in works by Bernstein, Mahler and Copland; Apr 29

Royal Festival Hall
Tel: 44-171-960 4242
● The Royal Opera: Parsifal, by Wagner. Concert performance, conducted by Bernard Haitink. The title role is sung by Plácido Domingo; Apr 23, 28
● Orchestre de Paris: Frans Brüggen conducts works by Haydn and Mozart. With cello soloist Truls Mørk; Apr 26
● Philharmonia Orchestra: Mozart Piano Concerto Cycle. The first of two concerts given by pianist András Schiff features Piano Concertos Nos. 22, 23 and 24; Apr 26

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
La Bohème: by Puccini. Steven Pimlott's production is revived by Barry Atkinson and Frances Moore, and conducted by Alex Ingram; Apr 23, 28

LOS ANGELES
OPERA
L.A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Il Trovatore: by Verdi. Conducted by Gabriele Ferro in a staging by Stephen Lawless. Cast includes Vladimir Bogachov; Apr 25, 29

MUNICH
CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Klassische Philharmonie Bonn: conducted by Heribert Beissel in works by Rossini, Chopin and Beethoven; Apr 23
● Königlich Flämische Philharmonie: conducted by Mu Hai Tang in works by Mozart, Brahms and Tchaikovsky. With violin soloist Julian Rachlin and pianist Anna Gourari; Apr 25
● Moscow State Symphony Orchestra: conducted by Pavel Kogan in works by Rachmaninov and Tchaikovsky. With piano soloist Nikolai Petrov; Apr 26
● Munich Philharmonic Orchestra: conducted by Bernard Klee in a programme including works by Debussy and Schoenberg. With soloists including soprano Hildegard Behrens; Apr 27, 28

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
Symbolism in England 1860-1910: previously seen in London's Tate Gallery, this show presents work by British pre-Raphaelites alongside that of their European contemporaries. Includes works by Rossetti, Burne-Jones, Watts and Lord Leighton; ends on Sunday

NEW YORK
OPERA
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Paul Bunyan: by Britten. New production directed by Mark Lamos and conducted by Stewart Robertson; Apr 25

EXHIBITION
New-York Historical Society
Landmarks of New York. A selection of photographs by Barbaralee Diamonstein. Until July 7

PARIS
CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
● Orchestre de Paris: conducted by Frans Brüggen in works by Haydn and Mozart. With cellist Truls Mørk; Apr 23
● Orchestre de Paris: conducted by Kurt Sanderling in works by Mozart and Bruckner; Apr 29

Théâtre des Champs Elysées
Tel: 33-1-49525050
Vienna Philharmonic Orchestra: conducted by Zubin Mehta in works by Weber, Mozart and Mahler. With oboe soloist Martin Gabriel; Apr 24

ROME
OPERA
Teatro dell' Opera
Tel: 39-6-481601
Parsifal: by Wagner. Bernard Haitink conducts a production from Covent Garden; Apr 26

ST IVES
EXHIBITION
Tate St. Ives
Tel: 44-1736-796 543
Roger Hilton (1911-1975): retrospective of the British painter; ends on Sunday

TV AND RADIO
● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

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● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

Smart bombs, smart production

The days of 20-year development programmes and $600 toilet seats may be numbered as the US defence industry moves to lean manufacturing. But, says **Alexander Nicoll**, there is still much fat to be trimmed

At 6.30am most mornings in St Louis, Missouri, a team of engineers gathers in front of three-dimensional images to discuss progress in designing Boeing's version of the Joint Strike Fighter, the next US combat aircraft.

In former days, their task would have been simply to make drawings. They would have given little thought to how factories would turn their designs into manufactured products and none at all as to how the finished product would be maintained. But the St Louis team does not just include designers. The manufacturers of the aircraft, its subsystems and its tooling are all represented, as are maintenance crews. The aim is to create, with computer-aided design and manufacturing techniques, an aircraft that will work first time – and cost-effectively – from the perspective of everyone involved with it.

Enthusiasm for modern production techniques is suddenly to be found everywhere in the huge, windowless factories that have been turning out military aircraft in basically the same fashion since the second world war. "Lean thinking has been embraced from the top of our corporation down," enthuses Bill Bullock, who heads Lockheed Martin's plant in Marietta, Georgia. Some metal parts for the C130 transport aircraft that used to take 65 days to make are now produced in two minutes, he says.

This is a big turnaround for an industry notorious for $600 toilet seats, cost-plus contracts, very long development periods, cost overruns, delayed deliveries and substantial post-production modifications to equipment.

Now, the trend is to adopt commercial practices and speed the bureaucratic wheels in response to a dwindling defence budget. The Pentagon wants its weapons to incorporate the latest technology, which is often to be found in the civil world, and to do so at minimum cost – a far cry from cold war projects such as President Reagan's futuristic "Star Wars" programme in which money was no object.

But the revolution is in its early stages. And it masks the fact that considerable overcapacity remains in US defence manufacturing in spite of a $62bn rapid-fire series of mergers and acquisitions. The question is: how much more fat can be cut from the industry?

Pressures on the Pentagon's suppliers to reform are strong. First, US defence procurement spending has fallen precipitously. Second, the Pentagon is pushing for better value. It talks of a "revolution in business affairs" to match the "revolution in military affairs" – the impact on modern warfare of computer technology and precision weapons. The defence department wants to instil the best practices of the commercial world not only in its own establishments, but also in its dealings with contractors.

The Pentagon has clearly signalled that "we're going to [have to] use commercial technology and commercial practices," says Alan Mulally, who heads Boeing's defence division. "What they want is parts to be made in the same factory [as for commercial aircraft] and to the same standards."

Mr Mulally symbolises the arrival of commercial forces in the military aircraft business. Until last year, when Boeing acquired military aircraft maker McDonnell Douglas, he had spent nearly 30 years on Boeing's commercial side.

He was general manager of the 777, an aircraft that progressed from a gleam in the eye to first delivery in 4½ years. In Boeing's Seattle factory, production techniques developed for the 777 are now being applied to Boeing's portion of the F-22, the stealth fighter aircraft with a 22-year gestation period.

Mr Mulally says the thinking of military chiefs has changed so much that, if he closed his eyes, he could be talking to the chairmen of United Airlines or Cathay Pacific. But he and other executives admit the revolution in defence production has come only so far. Most procurement programmes still inch forward in cumbersome stages, and manufacturers are subject to rigorous annual government inspections of their costs.

The uncomfortable fact for forward-looking managers like Mr Mulally is that most of the old military factories are still open. Although Boeing announced last month it would discontinue making sheet metal and some smaller parts, the net effect of the reorganisation will eliminate only 8,200 jobs over the next three years out of Boeing's total of 238,000.

The organisation of defence production sites is still a far cry from the civil aircraft industry. In military aircraft, Boeing is making its section of the F-22 in Seattle. It produces the C-17 transport in California, where it will also assemble its competing prototype for the Joint Strike Fighter (though the forward fuselage of this is being built in Missouri). It is keeping its advanced research "Phantom Works" in Missouri, where it also makes the F/A-18, the Navy's fighter. Boeing makes Apache helicopters in Arizona, and will keep component plants for military aircraft in other states.

Lockheed Martin is similarly spread out. For example, although it has built a state-of-the-art assembly line within its Marietta, Georgia, plant for the F-22, the aft fuselage and wings come from Boeing and the mid-fuselage is trucked from Texas.

"Corporate nameplates have changed, but the mergers and acquisitions have not led to a true industry restructuring," write Eugene Gholz and Harvey Sapolsky of the Massachusetts Institute of Technology in a recent paper.

Executives at the companies say the reason for this is simple politics: aircraft assembly plants remain big employers even if they are leaner producers.

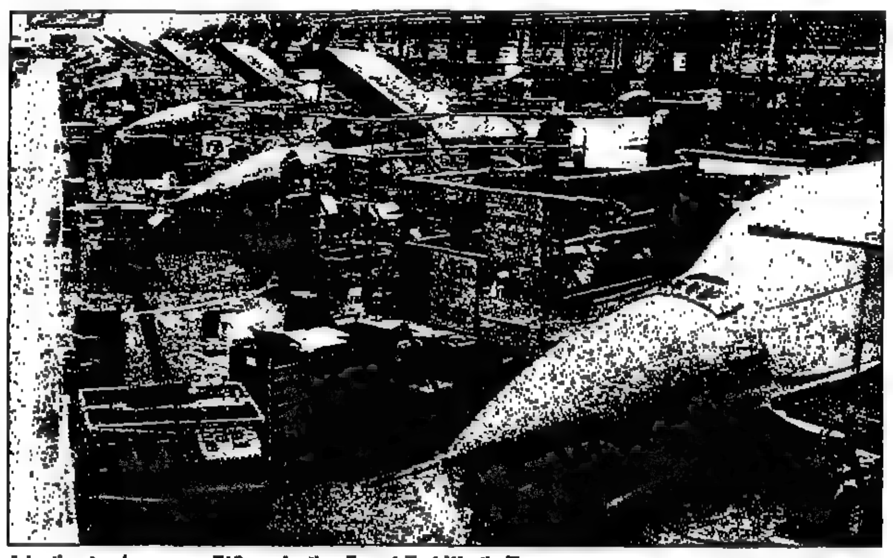
Mr Gholz and Mr Sapolsky see the production overhang as encouraging excessive and inefficient government spending on defence. "The defence industry is not governed by normal, competitive market forces: plants that would otherwise be forced to close, either via bankruptcy or a post-merger consolidation, can be kept open by aggressive lobbying, circumventing the market mechanism."

Congress has often acted as a drag on efforts to reform defence, delaying closures of military bases by the Pentagon and reinstating equipment programmes.

Instead of closing down factories, manufacturers are concentrating on productivity improvements that can be made on a plant-by-plant basis. Modern-day communications make it easier to operate with scattered factories, they argue. Boeing has espoused a "design anywhere, build anywhere, assemble anywhere" policy. Designs created in, for example, St Louis can be input directly into machine tools at any other plant, although the final product still has to be assembled somewhere.

At Fort Worth, Lockheed has used such virtual product development techniques to cut dramatically the time taken to produce an F-16 from order to delivery. In St Louis, Boeing engineers producing a mould from which to make an air inlet first reduced the time from a year to three months. Then they answered a newspaper advertisement placed by a commercial boatbuilder who could do the same job in two weeks.

But pressures from the Pentagon to go one stage further will not let up. According to Jacques Gansler, the defence department's procurement chief, there is still considerable scope for savings. "The way you get savings is you close a plant and you put two of them together," he says. This has not yet happened. But, he says, "that will take place over time".



Adapting to change: an F16 production line at Fort Worth, Texas

BOOK REVIEW SAMUEL BRITTAN

When 'sound finance' may not apply

DEBTS AND DEFICITS
An Historical Perspective

Edited by John Malony
Edward Elgar
£39.95, 140 pages

When I studied economics at Cambridge my elders used to ask me what I had learned that had not already been obvious. One reply was: "Government budgets don't have to balance." The fashionable argument of the time against balanced budgets was that it was a function of the state to offset any excess or deficiency of private savings relative to investment opportunities. Far from being like households, public finance should act as a balancing wheel. A few years later I was less sure unbalanced budgets were so wonderful. But the case for incurring deficits – in carefully defined circumstances – is not entirely dead.

Most of the contributors to *Debts and Deficits* would not give houseroom to this case, except perhaps to finance a war, or very temporarily in a recession if the budget were near balance over the whole cycle. The book is the outcome of a conference on British budgetary policy over several centuries and reads much better than most conference volumes. It is not confined to high theory. For instance, we are given a detailed account of Gladstonian finance; and we are reminded that John Maynard Keynes was far more cautious about budget deficits than his disciples.

On the point of principle, the book emphasises the dangers of a "debt trap", especially in Walter Eltis's contribution. If deficits exceed more than a modest proportion of the national income, taxes have to rise faster and faster, not to pay for public goods, but simply to service the interest on the national debt.

Fortunately we can usually avoid these risks because of the existence of monetary policy as a better instrument for tackling both inflation and recession. At a minimum, it can act more quickly. Although my sympathies are with the "doves" on the Bank of England Monetary Policy Committee, their argument that it would be undesirable to raise interest rates now and reduce them soon afterwards is a bad one. One of the virtues of monetary policy is that it can be changed when circumstances change, without the need for political egg on anyone's face.

The case for relying on monetary policy is probably valid in relation to normal business cycles. But suppose a country is not just in a temporary recession but in a long-lasting slump in which output remains well below capacity levels due to a deficiency of spending? What happens then if interest rates have already gone as low as they can, but money supply growth remains depressed and spending is still weak?

This is what Keynes called a "liquidity trap" and is more popularly known as "pushing against a string". It is all too like Japan today, where short-term interest rates have fallen to between a half and 1 per cent, but the economy is still stagnating.

Professor Milton Friedman does not however believe that Japan is yet in a liquidity trap or that the possibilities of monetary policy are exhausted. The Bank of Japan may already have begun to take his advice to inject money by more aggressive security purchases. But annual broad money growth has still to respond. Such a policy, if continued with sufficient intensity, will bring further downward pressure on the yen and thus could be accompanied by a still-larger export surplus.

This would be far from the disaster popularly supposed. If the Japanese save too much in relation to domestic investment opportunities, there are plenty of others, above all Americans, who save too little. Would it not be the most natural thing in the world for the Japanese to lend their savings to finance investment abroad? The mirror image of an investment *outflow* is a current account surplus. In other words, the Japanese economy can be stimulated by an excess of exports over imports – just as an excess of imports can help subdue any inflationary bubble in the US.

There is thus a strong case at present for "benign neglect" of the yen exchange rate. The mercantilist obsession of the US and Europe with their own balance of payments is an obstacle to such a recovery process. I wish the Japanese government were more robust in the face of international pressure on the issue.

Suppose, however, that the Japanese government does not feel able to stand up to US bullying? Or, suppose that one day there were to be a lasting excess of savings, not confined to Japan but affecting the whole world? Then there would be a *prima facie* case for budget deficits for as long as necessary to offset excess private savings propensities. Even if government debt were to increase, output would still be higher and *citizen welfare* improved. Most of the anti-deficit analysis in the book implicitly assumes the economy is working at an optimal level of employment over the business cycle. But if it is not, it would be worth incurring the "burden" of transfer payments to domestic government creditors to make it so.

Modern economists may be too inclined to diagnose a liquidity trap where none exists. But on the few occasions when one does occur the principles of sound finance should indeed go by the board, just as Keynes's disciples said they should.

samuel.brittan@ft.com

LETTERS TO THE EDITOR

Storing up more suffering than joy

From Mr Andrew Campbell.

Sir, Three cheers to Gary Hamel ("Wrong merger, wrong logic", April 15) for exposing the flaws in the Citicorp/Travelers deal.

The merger will fail, Mr Hamel argues, because there is no pile of gold at the end of the one-stop-financial-products company rainbow. Consumers need financial retailers who sell all the top brands.

But even if he is wrong (that is, there is a pile of gold), the Citicorp/Travelers merger may still make no sense. First, it is not clear that common parentage is needed to mine out these synergies. If the pile of gold is large, there is nothing stopping an independent Travelers and an independent Citicorp from working together.

Second, we have no evidence that either set of managers are capable of creating these synergies. Travelers has not tried before, and Citicorp, like the rest of the industry, has had plenty of failed attempts.

Finally, what about the downsides? Investment banks do not thrive in a commercial banking culture; direct sales operations suffer in a branch-based culture; and service-based businesses suffer in a product-driven culture.

As Citicorp and Travelers try to bring these businesses closer together there is every likelihood that there will be more suffering than joy.

Andrew Campbell,
director,
Ashridge Strategic Management Centre,
17 Portland Place,
London W1N 3AF, UK

The really staggering data on Italy's net fund inflows

From Mr Marco Ricci.

Sir, Everybody makes little mistakes once in a while. In your article "Sales of mutual funds hit record" (April 14) you translate net inflows into Italian funds of L38,735bn as $58.45bn. The real figure would be about $21.6bn.

Also, the net increase in Spanish funds was closer to $9.6bn than the $117bn you quote.

More important, though, your writers failed to point out the relative size of the flows between Italy and the US. Net funds inflows are hitting record figures, but the really staggering data are how a country with only a fraction of the population and gross domestic product is now regularly producing net inflows more than two-thirds of those in the US.

These are due to the structural changes you mention and there seems to be no indication of a slowdown.

Marco Ricci,
10 Friend Street,
Finsbury,
London EC1V 7NS, UK

Moment of truth

From Mr Nigel Scott.

Sir, I have just taken on a new secretary with impeccable qualifications but little financial experience. I am impressed, though, by her perspicacity in referring in a report typed for me to the Bank of England's "Momentary Policy Committee". Is this really what the chancellor had in mind?

Nigel Scott,
director of finance,
Children's Aid Direct,
12 Portman Road,
Reading,
Berks RG30 1EA, UK

Back now to boom and bust

From Mr Maurice Fitzpatrick.

Sir, Downing Street may or may not be correct to say that industry does not want to return to boom and bust ("Blair ignored warning signs over sterling", April 21), but a return to boom and bust is what industry has been given.

The economic growth forecasts in the March 1998 Budget Red Book suggest that quarterly economic growth in the 18 months to June 30 1999 will average barely 0.4 per cent compared with the average 0.75 per cent achieved in the 18 months to 31 December 31 1991. Given the continued resilience of the service sector, which accounts for around 70 per cent of gross domestic product, this fall in overall economic growth will effectively be taken up by industry – which will be stagnating or in recession for much of 1998 and 1999.

As far as much of industry is concerned, boom and bust has already returned, despite what the Treasury maintains to the contrary.

Maurice Fitzpatrick,
head of economics,
Chantrey Vellacott,
Russell Square House,
10-12 Russell Square,
London WC1B 5LF, UK

Japan has only itself to blame for this economic melodrama

From D. Jerome Murphy.

Sir, Lately the issue of responsibility for Japan's economic woes has been somewhat of a *kachuu no kuri*, or hot chestnut that no one dares to grab. So I was surprised when Hikaru Matsunaga, the Japanese finance minister, lobbed one over to Robert Rubin, the US Treasury secretary.

On Tuesday we learned that Mr Matsunaga testified that Mr Rubin's oft-repeated remarks in support of a strong dollar were to blame for his government's failed intervention in currency markets. In reality, the tattered state of the Japanese economy and the government's ad hoc response to the situation have much more to do with the most recent routing of the yen.

Politicians and bureaucrats are facing a perilous situation that requires their courage and initiative. Their responses to date have suggested that they have an insufficient grasp of the severity of the problem. While it is clear that the huge Y16,000bn package will provide a temporary lifeline to the economy, many analysts expect that the details to be unveiled tomorrow will contain a familiar recipe of pork projects to the heavily indebted construction sector and other vested interests. As the economy is already showing signs of recession, any increase in economic activity would be a welcome reprieve.

But officials should not delude themselves into thinking that the economic melodrama unfolding now is the result of some foreign plague which has washed up on their shores. The responsibility for Japan's lacklustre growth in the 1990s lies at home, and an earlier acknowledgment of this could have prevented the slow-motion accident we are now witnessing. In the absence of fundamental change, the government may find that its currency interventions and Nikkei "price-keeping operations" were lousy investments of public money, only buying a little time.

D. Jerome Murphy,
3-27-23 Jingumae Apt 211,
Shibuya-ku, Tokyo 150,
Japan

Number One Southwark Bridge, London SE1 9HL

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FINANCIAL TIMES
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Thursday April 23 1998

Nuclear parcel gets passed

Most people want to reduce the risk of nuclear war. But the row over shipments of weapons-grade uranium from Georgia to the UK this week shows that people are much less sure about how to deal with the dangerous materials which go to make bombs.

The fuss in this case was disproportionate to the danger. The UK agreed to take 4kg of U235, most of which was quite safe to handle or store and could be machined into smaller pieces for medical purposes. Only 800g had been irradiated in a research reactor and needed special treatment at Dounreay nuclear complex in Scotland. It will be much safer there than in Georgia.

The quantity which the UK agreed to accept is very small compared with the surplus bomb making material held in the UK, and trivial compared with that in the rest of the world. In total the five acknowledged nuclear powers (US, UK, France, Russia and China) have produced some 2,000 tonnes of plutonium and highly enriched uranium for military use. But as a result of international agreements to reduce their arsenals, only about 400 tonnes are now needed according to some estimates. In Russia alone there may be a surplus of about 1,000 tonnes, enough to make perhaps 100,000 bombs.

The Georgian consignment, by comparison, would make only about half a bomb, even in skilled hands. Its significance is that it was left by the former Soviet Union (and apparently forgotten) in a country where it could be vulnerable to theft by bandits or international terrorists. That is why the US was prepared to pay some $2m to ship it to the UK. But environmental lobbies are so strong that neither US nor France would store the uranium. Russia also decided to pass the parcel.

Clearly, the removal of weapons grade uranium from the control of unstable or vicious regimes must be a top priority for the major powers. And good progress has been made as a result of the efforts of the International Atomic Energy Agency, combined with specific deals such as this one.

However, the nuclear states need also to increase the momentum towards disposal of their own surplus stocks. For these may also be open to theft, particularly in Russia, where records and accounting procedures are far from adequate. More openness and willingness to submit to tough inspection is needed by all the nuclear powers.

But the main lesson from this week's row is that governments must find ways to counter the strident and often wilfully misleading cries of environmental lobbies. Disposing of nuclear material carries some danger, to be sure. But there are far greater horrors to consider. To make anxieties about nuclear re-processing the excuse for inaction would be criminal folly.

Not cricket

It is spring. The thwack of leather resounds on willow. The cuckoo greets the first snowfall. Loud among the sounds of the season, the cry echoes in the long room at Lord's: why, oh why, is England so useless at cricket?

There is an answer. It has nothing to do with the innate abilities of the players. It is that those in charge of the game do not really, really want to win. Obviously, they are not deliberately sabotaging their team's performance. But they are determinedly pursuing other aims that have the same effect. These aims are to provide a steady income for the 18 county cricket clubs which run the game and steady work for the 300 or so county cricketers who play for the clubs.

Offering employment to hard-working county cricketers is an honourable thing to do. But not if it is being done at the expense of the national game. The counties' interest is to maintain a full schedule of domestic matches. To this end, they require everyone – Test cricketers included – to play about 100 days of cricket a year, roughly twice as much as rival Test players from Australia, the West Indies or other cricketing nations.

This requirement is the single biggest explanation of English cricketing failure in the last 30 years: English players are reduced to below international standard by the county grind.

The counties can pursue their interests because of the bizarre financial arrangements on which English cricket is based. Nearly all the money raised for the game comes from international matches. These are packed to the rafters. Nearly all the money that is spent on the game is distributed by the counties to ordinary players and county grounds. These are usually empty.

The control of other people's money mean the counties can ignore the plight of the national team. They did so last year when Lord MacLaurin, the former Tesco chairman who now heads the England and Wales Cricket Board, proposed a reform to raise standards by allowing the best teams to earn more. A majority of counties rejected the plan.

This decision was self-destructive. In the end, without a successful national side, spectators will abandon cricket and the county system will die too. That is already happening. So the season now beginning ought to be considered a last chance for the counties to change their minds.

If they do not, those who stage Test matches should declare unilateral independence, set up a domestic system of their own and re-invest the cash they keep in players whose aim is to compete at the top. That is the only way to produce a successful side, and the only way to guarantee long-run public support.

Forward march

The consolidation of Europe's defence industry is happening, if not fast enough or to a grand design.

Yesterday's victory of a consortium in a competition to build armoured vehicles is bound to lead eventually to an overall reduction of capacity. This may be hard for the losers, some of whom are complaining about the role played by the German government. But since governments are the customers, the award of contracts is inevitably the most powerful means of forcing rationalisation.

This process must create a set of competitive companies which can win enough business to do more than merely survive the decline in arms spending which followed the ending of the cold war.

They must have expertise in areas of defence which will create big orders at the cutting edge of technology for years to come, and they must be able to market their products globally, not just in Europe. Only in this way will European industry be able to compete with whichever large US companies emerge from the consolidation which is taking place on the other side of the Atlantic.

The urgency with which European governments are (at last) treating the issue is to be applauded – including measures this week towards harmonising procurement and avoiding duplicated research and development.

But governments need to be wary of lumping the existing players into one big mass and hoping that somebody will be able to manage the new grouping. For one thing, it will not work: shareholders of British Aerospace and GEC, for example, will not throw in their lot with an amorphous group of inefficient companies with substantial state holdings. For another, such a group would probably have great difficulty in becoming properly focused on business goals.

The defence companies which are likely to succeed are building businesses without waiting for a pan-European solution. GEC's strategy to expand its presence globally in defence electronics seems right. Part of its purpose in buying Tracor, a Texas electronics company, may be to put pressure on the French government to speed up privatisation. But GEC's primary aim is to have strong businesses in the most important markets.

Although British Aerospace has advocated a pan-European aerospace and defence company, it too has an eye across the Atlantic and is strengthening its links with other private sector companies in Europe.

Governments are right to emphasise the problem. But they must be careful to let the solution emerge from the market.

Watch out, dollar

The euro could become an international currency with real clout more quickly than many people are expecting, argues Vicki Barnett

Birth of the euro

The introduction of the euro will transform Europe. But the creation of the world's second largest currency area will also have a huge impact on the global financial system. What is still unclear is whether the euro's influence will be primarily regional or whether it will come to rival the dollar as an international currency. The answer has important implications for both Europe and the US.

The US dollar has dominated the international finance system for nearly a century. Because of its extensive use by third parties, its importance in global financial transactions far exceeds the US's 27 per cent share of world output (see chart). The dollar accounts for 56 per cent of the world's foreign exchange reserves; 48 per cent of export invoicing; and participates in more than four-fifths of all foreign exchange transactions.

It is no accident that just one currency has gained pre-eminence. As the use of a currency rises, the market becomes more liquid and transaction costs fall, inducing even more people to use it. Once a currency becomes widely used, it is hard to dislodge. Neither the yen nor the D-Mark has made significant inroads into the dollar's dominance. So why should the euro be any different?

A big factor will be the sheer size of the euro area. The 11 prospective members have a combined gross domestic product of $6,300bn, against the US's $8,100bn. The euro area will be the world's largest importer and exporter, excluding intra-EU trade. And if, as planned, Emu is extended to all 15 EU countries, the euro area will become the world's largest economy.

A huge economy means a huge new capital market, with much lower transaction costs. And, unlike Japan, Europe's capital markets are fully open to foreign investors. The effect on liquidity will be dramatic. Avinash Persaud, head of currency research at J.P. Morgan, predicts that "transaction costs will collapse overnight". This will immediately make the euro more attractive as a vehicle currency for trade and foreign exchange.

The unification of the European currencies will also lead to economies of scale, making it more likely that foreign companies exporting to Europe will use the new currency to denominate their trade. Say, for example, a Japanese company exports 10 per cent of its output to Germany, 5 per cent to France and 5 per cent to Italy. Before Emu, the trade would probably be transacted in dollars because of the expense of dealing in several different currencies. But after Emu, with a fifth of its exports going to the euro area, it might well switch.

All this means the euro's use as a vehicle currency could quickly expand. In particular:

- Effects could be felt first in those countries expected to join the next wave of Emu – the UK, Sweden, Denmark and Greece. Hillary Thompson, head of European strategy at NatWest, says many European companies will ask their UK suppliers to invoice them in euros. Several of NatWest's larger UK clients, which have European-oriented businesses, have been discussing plans to switch their operations entirely into euros.

Many suppliers in non-Emu countries could end up operating in euros to keep their customers happy – what Ms Thompson calls the "euro supply-chain effect". She believes the euro could become a quasi-domestic currency in the UK "within two to three years". This process is already beginning. Last week, British Steel became the second large UK company – ICI was the first – to announce that it would ask its suppliers to accept payment in euros.

- The euro is also likely to be widely used in eastern Europe and, to a lesser extent, north Africa, where many local currencies are already pegged to European currencies.
- It may start to be used in transactions between the euro area and countries outside Europe. Currency transactions between Japan and Europe, for example, are almost always intermediated through the dollar, while most exports from Asia to Europe are also invoiced in the US currency. As the euro gains momentum, this could change.
- Many of the world's central banks may also reduce their high concentration of dollar holdings by switching to euros. Central banks want greater diversification in their currency portfolios, particularly after many made big losses when the exchange rate of the dollar plunged in the late 1980s.

The euro's greater liquidity and lower transaction costs (compared with individual European currencies) will be a big attraction: a prime consideration in choosing a reserve currency is its effectiveness for intervening in foreign exchange markets.

The denomination of a country's trade is also an important influence in the choice of currency. This means that any shift towards using the euro in trade will have a knock-on effect for the desirability of euro reserves.

Given these expected changes, most economists agree that, sooner or later, the euro will achieve international status. The question is when. The most common view is it will take some time. Martin Brookes, international economist at Goldman Sachs, thinks that, although a bipolar financial system is economically logical, "it will take a very long time before there is a big shift to the euro". And the International Monetary Fund, in last October's World Economic Outlook, said the new currency would only achieve international status "in the medium to longer-term".

The reasons most often cited for such caution are that the economic stability of the euro area has yet to be proven, while European capital markets are considerably smaller than their US counterparts.

But neither factor should have a decisive impact. On the first point, it is true that an international currency needs the support of a stable economy. True also that the euro area could suffer significant economic turbulence in the transition period. But these will be primarily structural problems concentrated in pockets of overheating or regions of persistently high unemployment.

Such problems will not matter to international holders of euros so long as the overall macroeconomic performance of the euro area is stable and inflation remains reasonably low. And, with the European Central Bank likely to play it very safe as it establishes its reputation, continuing low inflation seems probable.

The second argument against the euro's rapid rise – that European capital markets are too small – is more relevant. The European domestic securities market is only two-thirds of its US equivalent. And without a central government bond issuer, European fixed income markets will remain more fragmented than in the US. In this, the early entry into Emu of the UK, with its deep financial markets, will be crucial.

There is a counter view to the idea that the euro will take a long time to mature. Some economists suggest the sudden fall in transaction costs will lead to the rapid adoption of the euro worldwide. "The euro will become an international currency within a matter of months, not years," says Mr Persaud of J.P. Morgan.

Academics Richard Portes and Hélène Rey, in a paper recently published by London's Centre for Economic Policy Research*, share this view. They suggest that the shock Emu will bring to the international financial system "is likely to be substantial and relatively sudden".

The internationalisation of a currency is not just a status symbol. It has significant economic and political implications. First, the issuer of such a currency gains a direct economic benefit in the form of seigniorage: in exchange for almost costless notes, the issuer receives real resources – net imports. A second benefit is the greater liquidity in the bond markets that results from internationalisation: this lowers yields, cutting the costs of borrowing for both governments and companies.

A rapid rise in demand for the euro would also affect the euro exchange rate. Unless it were offset by an equally rapid rise in the amount of euro assets issued, it would exert a powerful upward influence.

The exchange rate between the dollar and the euro will become the most important in the world. But the US and the EU, being relatively closed economies, are unlikely actively to manage their exchange rates. This combination of factors has led Fred Bergsten, director of the Institute for International Economics, to warn that a "quantum leap in transalantic co-operation" will be needed to avoid a damaging increase in exchange rate volatility**.

So far, American policymakers seem unconcerned at the potential challenger to their currency's dominance. "The dollar will remain the primary reserve currency for the foreseeable future," Larry Summers, the deputy Treasury secretary, said in a speech last year. "We expect the impact of the euro on the monetary system to be quite limited initially and to occur only gradually".

Mr Summers and the rest of the US establishment, it seems, may be in for a surprise.

The mighty dollar

	Share in world output (%)	Share in global reserve holdings (%)	Share in two-way foreign exchange transactions (%)*	Share in world export invoicing (%, 1992 figures)
US	27	56	84	48
EU	31	20	76	33
Japan	21	7	24	5

* As two currencies are involved in each transaction, the sum of transactions in individual currencies comes to twice total reported turnover

Source: [illegible] 1995 figures unless stated

* *The Emergence of the Euro as an International Currency by Richard Portes and Hélène Rey, in EMU: Prospects and Challenges for the Euro", CEPR April 1998*

** *The Dollar and the Euro by C Fred Bergsten, Foreign Affairs Volume 76 no 4*

OBSERVER

Bony was a warrior

Yesterday's move by the Bank of New York for Pittsburgh outfit Mellon Bank suggests that Uncle Sam's oldest financial company takes after its founder, Alexander Hamilton, who was also one of the nation's founding fathers.

Bony's normal level of activity is the butt of a Wall Street joke about the duel in which Hamilton was killed by Aaron Burr, then US vice-president, with whom he was conducting a long-running slanging match. As he threw on his coat to dash out to the field of honour, he told underlings to do nothing until he came back: wags say they are waiting still.

But Hamilton's career included spells in such widely differing roles as aide-de-camp to George Washington and secretary to the Treasury, and he was prepared to go out and face a duel when his honour was at stake: similarly, Bony occasionally has a rush of blood to the head and does something out of the ordinary.

A decade ago, its successful bid for the Irving Trust Company was the first hostile takeover in US banking for decades. Now, after months of rumours, it is applying a bear hug to Mellon, and doing so in an unorthodox way – publicising a letter to your target's board is not standard banking takeover practice.

Whether this is just another isolated incident or an indication of how new chairman and chief executive Thomas Renyi plans to operate remains to be seen.

There is one way in which Bony won't want to follow the founder's example. Hamilton took the first shot in the duel – and missed.

Poll position

President Fidel Ramos's man is stumbling in the popularity stakes with just three weeks to go until polling day in the Philippines, and speculation has begun about the possible return of one of the country's grand old traditions: vote-rigging.

The late and lamented-by-practically-nobody dictator Ferdinand Marcos was a great believer in the health-giving effect of a well-stuffed ballot box – and many Filipinos believe to this day that, even if Ramos was declared the winner of the 1992 election, Miriam Defensor-Santiago actually got more votes.

This time round, Marcos's chosen successor is Jose de Venecia, the speaker of the House of Representatives, whose popularity appears to be roughly in line with his charisma. His current poll rating is 14 per cent – half that of vice-president and former film star Joseph "Erap" Estrada.

Concern about how the poll will be conducted has brought worried noises from Cardinal Jaime Sin, the country's top cleric, who is no shrinking violet when it comes to intervening in politics.

The business community doesn't like the idea of civil disturbances if the elections are not credible. They don't like Estrada any more than Sin does, but they're now saying privately that they would far rather see him in Malacanang Palace than risk a dodgy victory for de Venecia.

Judge not

The court system in Hungary can seem a bit of a mess, not helped by the fact that poor pay for judges makes recruitment and retention difficult.

One judge in the small eastern town of Mateszalka seems to have taken the lack of judicial training to heart and devised a work experience scheme: she took the day off and sent her daughter – who's a court official and keen to follow in mum's footsteps – to hand down a few verdicts in her place.

The authorities take a less imaginative approach to training: they've asked the judge to resign and advised the daughter to think up another career path.

War cry

Even Gerhard Schröder's silky election campaign machine is capable of misfiring. The slogan – The Power of the New – under which the 54-year-old Lower Saxony state premier was installed as Social Democrat contender for Chancellor Helmut Kohl's job last week, wasn't all that new after all.

Siemens, the Munich-based electrical and electronics giant, has gently pointed out to the SPD that its marketing mandarins dreamed the slogan up about six months ago for a Siemens ad campaign. So it's back to the soundbite factory for the SPD.

Not that it's all gloom for Gerhard: any jarring notes are drowned out by the strife between Kohl's Christian Democratic Union and its feisty Bavarian sister the Christian Social Union.

Wolfgang Schäuble, the CDU's crown prince, and Theo Waigel, finance minister and CSU leader, were at each others' throats when MPs of the two parties met this week. Astonishingly, Kohl did nothing to stop the row, prompting renewed doubts over his ability to come down from the heady world of Euro-politics and establish order over his feuding followers ahead of September's poll.

Windows frame

Windows 98, Microsoft's much-hyped new operating system which is coming soon to a computer near you, will eventually make Bill Gates yet more millions of dollars: but for the moment, it's just being an embarrassment.

At a trade show in Chicago this week, Gates suffered the humiliation of seeing his new baby crash during an on-stage demonstration. It was just a test version, he explained, adding: "While we're all very dependent on technology, it doesn't always work." It seems to have worked pretty well for Gates.

The Financial Times

100 years ago

War At Last

Key West, 22nd April. The American fleet sailed at a quarter to six this morning. The monitors "Terror" and "Puritan," the gunboat "Helena," the cruiser "Marblehead" and three torpedo boats remain here. 11 a.m: The fleet has captured a Spanish freight steamer near here, with a cargo of lumber from Texas.

Washington, 22nd April. The New Orleans harbour authorities yesterday seized 1,000 mules on board the steamer "Catalonia" as contraband of war. The mules were intended for Havana. The Spanish Consul protested, and declared that as war had not been declared, the seizure was illegal.

50 years ago

Democrats Win in Italy

Rome, April 22. The final results of the elections have consolidated the Christian Democrats' victory. They have gained an absolute majority in both the Senate and the Chamber of Deputies, with 148 Senators and 307 Deputies out of 574. The Communist-dominated Popular Front will be represented by 182 deputies. The Milan Bourse was weaker, some sharp falls taking place in industrials.

FINANCIAL TIMES
THURSDAY APRIL 23 1998

THE LEX COLUMN

Veering Volvo

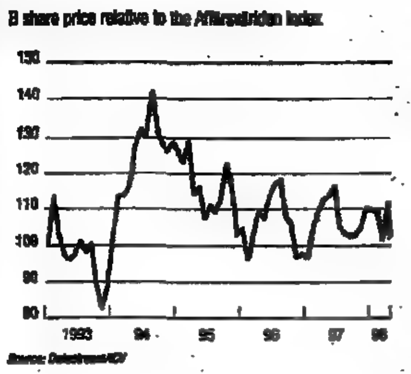
Safe but dull? If only. In remoulding itself as a racier proposition, Volvo has skidded off the tracks at a fair old lick. Higher launch costs and an unfavourable sales mix have dented profitability just when confidence in the stock was recovering. A half percentage point fall in operating margins to 4 per cent leaves the company ill-placed to hit its 5-7 per cent target. Continuing gloom over higher margin Asian sales – accounting for around 6 per cent of the total – cannot help either.

Clearly much hope is pinned on the success of new models. The new upmarket saloon will have its work cut out to challenge the established strength of BMW and Daimler-Benz at a time of intense price competition. *But given the success of its new mid-size cars – which helped treble Volvo cars' operating profit in 1997 – it seems fair for now to offer the benefit of the doubt.* After all, current investment in this new large car platform will soon support other models too.

Expanding the truck product range in Europe and Latin America will help Volvo take on the market leaders. But, given the overcapacity in the sector, growth by acquisition might be better. Renault's Mack unit in the US remains the best fit. With SKr18bn ($2.32bn) net cash on its balance sheet, Volvo would still have plenty of room to pick up Mack and repeat last year's share buy-back. Until then the discount to BMW and Daimler-Benz looks warranted.

Volvo

B share price relative to the Affarsvarlden index



Source: Datastream/ICV

Mellon/Bank of New York

For such an apparently ardent suitor, Bank of New York's embrace of Mellon Bank looks feeble. Following yet another round of failed merger talks, it has published the terms of its rejected $24bn takeover proposal, but says it will not back this up with a tender offer or pursue an unfriendly deal. That gives Frank Cahouet, Mellon's famously difficult chairman, the option to keep on stonewalling. Since BoNY's bid is at a juicy 28 per cent premium to Mellon's market price, the latter's shareholders would surely prefer a proper hostile bid, allowing them to decide matters.

Unfortunately, hostile takeovers are almost impossible to pull off under state banking laws in Pennsylvania, where Mellon has its headquarters. So BoNY's tactics are probably the next best thing. But they depend on Mellon's shareholders putting pressure on their board to negotiate. With Mellon's stock trading 12 per cent below the value of BoNY's $90-a-share offer, the market is not putting huge odds on their success.

That would be a shame. The merged bank's dominance of tedious businesses such as securities processing, global custody and depositary receipts would make it one of the country's most profitable, with a return on equity of nearly 25 per cent. And via the premium, BoNY is offering Mellon investors virtually all the $5bn or so value of the $800m of expected savings upfront. That must be worth making a fuss over.

Liffe

It was too much to hope that Liffe's cumbersome board would launch a revolution in the way London's futures and options exchange is run. But at least it has sanctioned evolution. The profit discipline can be usefully employed to overrule moves by members to protect their interests at the expense of the exchange's overall wealth. Recognising that automated trading will be done on a subscription basis paves the way, at last, for divorcing access to the exchange from ownership. On top of the decision to appoint a full-time chairman, progress is undeniable.

But the proposals still bear signs of committee fudge. It is envisaged that ownership will still be dominated by existing members: will they act with the shareholder side of their brain or the vested interest lobe? And there is some ominous detail to sort out in the shareholding structure. Most importantly, the impact of the proposals on the key issue – securing the exchange's competitive future – remains unclear. On the introduction of automated trading, for instance, there has been no ratcheting up of urgency. Surely an electronic programme should start rolling earlier than the eve of the millennium.

The proposals need to gain strong backing from members to demonstrate a burying of divisions. And the new chairman will need to reform the board further. *The decision-making structure still looks too much like Liffe as we know it.*

US mutual funds

Americans are married to the stock market as never before. Total assets of the booming mutual fund industry, at nearly $5,000bn, are expected to overtake those of the entire US commercial banking system this month. According to Federal Reserve figures, 53 per cent of household financial assets – which exclude real estate – is now invested in equities, higher even than at the previous peak reached in the 1960s. By contrast, cash holdings have dropped to a record low of 14 per cent.

How long can this shift in assets continue? Probably for a bit longer. After all, cash levels have been declining for 15 years. But they are unlikely to go to zero. And the rising popularity of bond funds (at the safe end) and venture capital funds (at the risky end) shows investors searching for alternatives to dizzily-rated equities.

Meanwhile, the baby boomers (born from 1946 to 1965) who have been saving for the past 15 years are starting to pay children's college fees. At best, this will consume some of the monthly cash flows going into equities. At worst, it could force some households to dip into their principal.

This is a potentially serious threat. Arguably, equity fund inflows have taken over from falling interest rates and compelling valuations as the prime driver of the stock market. If that pillar is weakened or removed, share prices will have little support left.

Irish asked to make leap of faith for peace deal

Republic may not be easy to win over, writes **John Murray Brown**

Eamon de Valera, the austere republican leader and former Irish president, still casts a large shadow over the small County Clare town of Ennis, in the west of Ireland.

His statue looms over the local courts building. His granddaughter Sile holds his old parliamentary seat. But next month a symbolic part of the legacy of "Dev", as he was known, will be dismantled when voters are asked to abandon the republic's territorial claim to Northern Ireland, one of the central tenets of his 1937 constitution.

As part of the peace settlement agreed two weeks ago, the Irish are being asked to adopt the principle that change in Northern Ireland's status as part of the United Kingdom can only take place with the backing of a majority of the Northern Ireland population.

Bertie Ahern, the Irish prime minister, was given a standing ovation in the Dail (the lower house of the Irish parliament) when he outlined the case for compromise during a debate this week on a motion on the accord.

The motion was passed without a vote on Tuesday night but opinion in country areas could prove harder to win round. For many Irish people, articles 2 and 3 of their constitution – which define Ireland as the whole island, its islands and its territorial seas – represent a core belief.

An opinion poll last week suggested that people in the Republic were more reluctant to endorse the peace package than in Northern Ireland. Only 61 per cent were in favour compared with 73 per cent north of the border.

"It can't be taken for granted that people will vote for it. We are getting mixed signals," says Gerry Collison, editor of the Clare Champion, the local newspaper.

Ireland, he says, is "just a couple of generations from a civil war, and attitudes are strongly held".

Clare is traditionally a republican area, returning three deputies from Fianna Fail, the party founded by de Valera, who died in 1975.

The local Fianna Fail party is due to debate a motion next week calling for the retention of the territorial claim.

PJ Kelly, chairman of the Clare County Council, says: "It's a difficult time for Fianna Fail. There would be loyalty to Bertie but also loyalty to a principle."

But he concedes that voting against the package would put him in the same boat as Ian Paisley, hardline leader of the Democratic Unionists in Northern Ireland.

As one local member said: "If Sinn Féin, [*the political arm of the IRA*] can sign up to it then I suppose we can too."

Outside Fianna Fail, there is less resistance. "But if Dev's philosophy is so strong, how come we elected Moosajee Bhamjee?" says Milo, a local shopkeeper. In 1992, Mr Bhamjee, a South African Indian, became Ireland's first ethnic minority member of parliament when he won a seat for Labour in the four-seat constituency.

"If South Africa can sort out its problems, then so can we," says Mr Bhamjee, who withdrew from parliament to pursue a career as a psychiatrist.

The Rev Willie Walsh, a Catholic bishop, says "I would have despaired of ever getting to the point we are at now. *And for better or worse we will* become more deeply embedded in the north as a result of the deal."

He says his only concern is that "if the peace process breaks down, it is much more likely the violence will spill over into the Republic".

Bonn announces $2bn aid plan for jobless as state poll looms

By Lucy Smy in Bonn

Germany's centre-right coalition government yesterday announced measures to put the unemployed to work, days before a regional election which the opposition Social Democrats are *forecast* to win.

The government said the measures, ranging from extra job training places to incentives for the self-employed, would be worth DM3.7bn ($2bn), but did not represent an additional burden on the state budget.

The plan sparked strong criticism from the Social Democrats, who called it "totally inadequate". It contained nothing new and only "paid lip-service" to the problems of the unemployed, the SPD said.

The SPD has developed a strong following in Germany's eastern Länder (states), where unemployment is highest. It is leading Chancellor Helmut Kohl's Christian Democratic Union by 40 per cent to 24 per cent in the eastern state of Saxony-Anhalt, where an election takes place next Sunday.

Unemployment in Germany reached its highest level since the second world war in January, but has fallen slightly since. In the eastern states unemployment is roughly double that in the west.

Total German unemployment is 12.1 per cent, while in Saxony-Anhalt the *official* jobless total is 22.6 per cent, and unofficial estimates put it nearer 30 per cent.

Among other measures, the government is to provide DM1.5bn for initiatives to help people start their own business. It has laid aside DM230m to create 17,500 additional job training places in eastern Germany and plans to extend the programme until 2001.

Germany's plan is part of a European Union-wide drive to tackle unemployment agreed at last year's Luxembourg summit, where member states pledged to try to cut 20 per cent of their unemployment total.

Günter Rexrodt, economics minister, insisted the government was sticking to its commitment to supply-side economics, with the funds for the programme coming from a restructuring of the employment budget. He said the programme was only one of *several* economy-boosting measures, such as tax reform and steps to increase workplace flexibility. The government estimates that, as the economy picks up, there will be 200,000 more people in work by the end of the year than at the end of 1997.

Observer, Page 19

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A protester makes a point to Belgrade police as Serbs prepare to vote today on foreign mediation in talks on Kosovo province. Page 2

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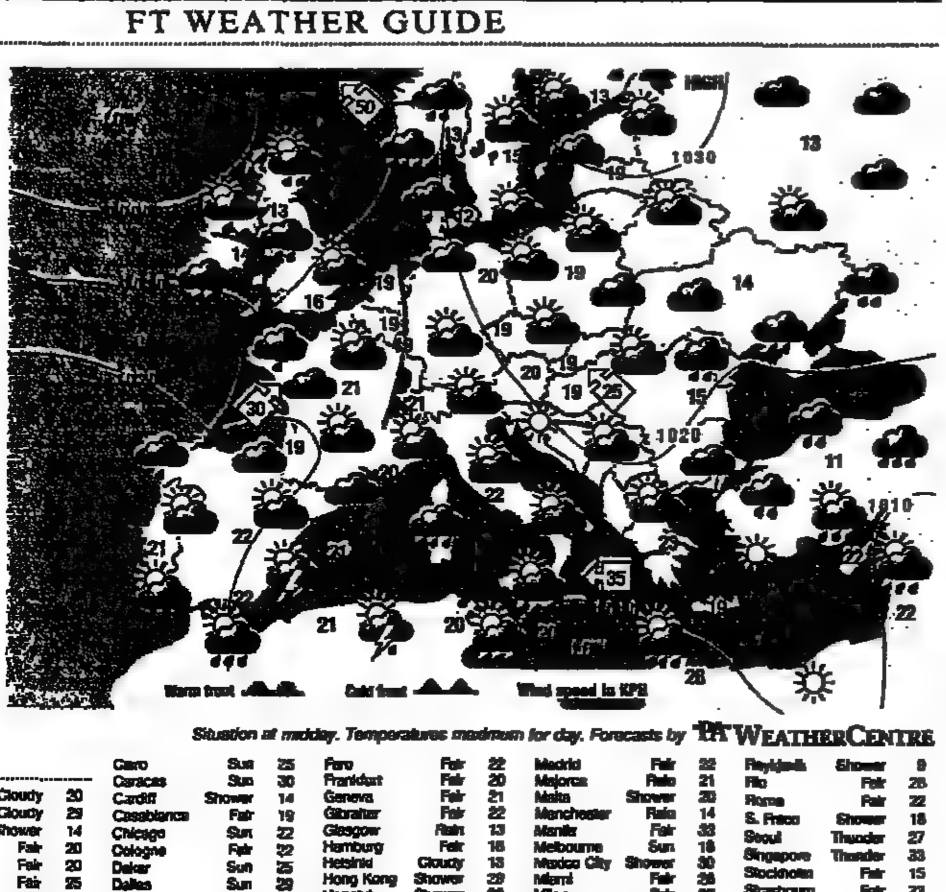
FT WEATHER GUIDE

Europe today

Rain will clear from northern Norway, leaving northern and eastern Scandinavia dry and bright. The south will be cloudy with rain spreading eastwards. Eastern and south-eastern Europe and the eastern Mediterranean will have some sun but there will be some showers around the Black Sea and across Turkey. The central and western Mediterranean and eastern Spain will have heavy *showers with scattered thunder*storms. Other parts of the Iberian Peninsula will see some sun but the north and north-west will become drizzly. Rain will move into north-west Europe but showers across central areas will die away.

Five-day forecast

The central Mediterranean will have thundery rain spreading eastwards. The Iberian Peninsula will be sunny before heavy rain at the weekend. Northern and north-western Europe will stay mild with sunny spells and sharp showers. Central and eastern areas will remain mostly fine.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Fair	
Accra	Thunder	31
Algiers	Thunder	21
Amsterdam	Fair	19
Athens	Fair	23
Atlanta	Fair	18
B. Aires	Thunder	20
B.ham	Rain	16
Bangkok	Fair	36
Barcelona	Cloudy	20
Beijing	Cloudy	29
Belfast	Shower	14
Belgrade	Fair	20
Berlin	Fair	20
Bermuda	Fair	25
Bogota	Thunder	20
Bombay	Sun	33
Brussels	Fair	19
Budapest	Fair	19
C.hagen	Fair	12
Cairo	Sun	25
Caracas	Sun	30
Cardiff	Shower	14
Casablanca	Fair	19
Chicago	Sun	22
Cologne	Fair	22
Dakar	Sun	25
Dallas	Sun	29
Delhi	Sun	35
Dubai	Sun	32
Dublin	Rain	14
Dubrovnik	Fair	21
Edinburgh	Rain	13
Faro	Fair	22
Frankfurt	Fair	20
Geneva	Fair	21
Gibraltar	Fair	22
Glasgow	Rain	13
Hamburg	Fair	16
Helsinki	Cloudy	13
Hong Kong	Shower	29
Honolulu	Shower	29
Istanbul	Cloudy	13
Jakarta	Fair	32
Jersey	Rain	16
Johannesburg	Shower	23
Karachi	Sun	34
Kuwait	Sun	32
L. Angeles	Fair	22
Las Palmas	Fair	23
Lima	Fair	26
Lisbon	Fair	21
London	Cloudy	16
Lux.bourg	Fair	19
Lyon	Fair	22
Madeira	Fair	20
Madrid	Fair	22
Majorca	Rain	21
Malta	Shower	20
Manchester	Rain	14
Manila	Fair	33
Melbourne	Sun	16
Mexico City	Shower	30
Miami	Fair	28
Milan	Fair	22
Montreal	Fair	19
Moscow	Cloudy	13
Munich	Fair	20
Nairobi	Thunder	26
Naples	Fair	23
Nassau	Thunder	27
New York	Rain	15
Nice	Fair	20
Nicosia	Fair	22
Oslo	Rain	13
Paris	Fair	21
Perth	Shower	23
Prague	Fair	19
Rangoon	Thunder	37
Reykjavik	Shower	9
Rio	Fair	26
Rome	Fair	22
S. Frsco	Shower	18
Seoul	Thunder	27
Singapore	Thunder	33
Stockholm	Fair	15
Strasbourg	Fair	22
Sydney	Shower	21
Tangier	Fair	20
Tel Aviv	Fair	22
Tokyo	Fair	23
Toronto	Fair	18
Vancouver	Shower	14
Venice	Fair	20
Vienna	Fair	20
Warsaw	Fair	17
Washington	Rain	14
Wellington	Cloudy	18
Winnipeg	Shower	21
Zurich	Fair	21

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FINANCIAL TIMES
COMPANIES & MARKETS
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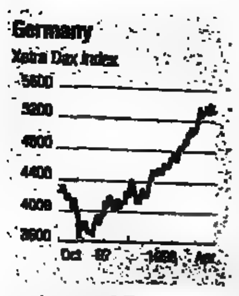
INSIDE

Dax index ignores hints of trouble



As the Xetra Dax index in Germany has reached successive highs, those who preached restraint have been proved wrong. The clouds on the horizon, such as the possible impact of the Asian crisis on profits, a looming election that could see a change of government and the planned introduction next year of Europe's single currency, have been shrugged off. This year, the Dax has risen 28 per cent to about 5,400. **Market focus, Page 42**

Logical end to BNY-Mellon tie-up
Bank of New York's offer for Mellon Bank of Pittsburgh – the largest hostile takeover bid in US banking – has helped BNY lose its reputation for inactivity. The move by BNY represents a logical end to the increasing emphasis by many commercial banks on fee-generating businesses, such as securities processing, rather than on traditional lending. **Page 24; Lex, Page 20**

How Kenyan horticulture is blooming
In the past five years Kenyan horticulture exports have grown by about 20 per cent a year, due in part to the lightest of government touches. This year the sector will still grow, but in single rather than double digits. The performance contrasts with coffee and tea, Kenya's two leading commodity exports, which are languishing under the weight of state-run marketing boards. **Page 32**

ITT to cut 1,000 jobs at pumps arm
To remove spare capacity, ITT Industries, the world's biggest pump-maker, is cutting 1,000 jobs and shutting up to five plants. **Page 24**

Sun Life boosted by pensions sales
A jump in sales of pensions and unit-linked high income bonds helped Sun Life & Provincial Holdings, the UK insurance arm of France's Axa Equity & Law, lift new life business 11.9 per cent in the first quarter. Expressed as regular premiums plus a tenth of single premiums, UK new business rose from £91.4m to £102.2m ($170.7m). **Page 26**

Petron weathers the storm of 1997
Petron, the largest oil company in the Philippines, is on the mend following its problems in 1997. Asian exchange crises had pushed up crude oil prices while a freeze on price rises stopped it compensating for a weaker peso. But impending sector deregulation has helped boost Petron's shares 70 per cent in five months. **Page 22**

Zambia puts copper back on agenda
Zambia is taking action to put the privatisation of its copper industry quickly back on track by restarting talks with the Kafue consortium, whose bid for the country's two main mines was rejected three weeks ago. The government may change the composition of the privatisation committee to facilitate new talks with the group. **Page 32**

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MARKET STATISTICS

Philips cuts its mobile phone targets

Heavy losses in joint venture flatten Dutch group's first quarter profits

By Barbara Smit in Amsterdam

Philips, the Dutch electronics group, said yesterday it had scaled down its mobile phone targets after heavy losses flattened company profits before extraordinary items in the first quarter.

Jan Hommen, chief financial officer, said the mobile phones unit, run jointly since last year with Lucent of the US, had lost about Fl 250m ($124m) in the first quarter, dragging the consumer products division into the red. The joint venture unit, called PCC, was about one year behind schedule, but he hoped it would break even later this year. Lucent said the venture, to which it had contributed 10,000 people, was "not achieving its goals" and "needed to be fixed".

The mobile business was seen as a key element in the Philips drive to recover from years of underperformance in cutting-edge consumer products. When Philips entered the mobile business two years ago, it said that, by the turn of the century, it wanted to rank among the world's three largest players in the tough market. But it lags far behind the three market leaders, Motorola of the US, Ericsson of Sweden and Finland's Nokia, despite the joint venture with Lucent, sealed in June in an effort to catch up. Philips controls 60 per cent of the venture.

Mr Hommen said Philips had achieved a market share of about 6 per cent, while the market was growing at an estimated annual rate of about 35 per cent worldwide. He said: "Coming from nowhere, that is quite something," but added: "The other folks out there are not exactly slouches." He acknowledged the mobile unit had run into production and distribution delays. The two sides have also encountered difficulties marrying the consumer-oriented Philips business with Lucent, which is more pitched towards professional markets. Mr Hommen said costs had to be cut.

Philips had decided to take a "more realistic approach", concentrating for now on protecting its market share. "The potential is still there," said Mr Hommen, "but the group has basically lost a year." As a result, Philips' profits from normal operations rose slightly – to Fl 859m from Fl 836m for the same period last year. Declining earnings at PolyGram, the entertainment group, of which Philips controls 75 per cent, also affected results.

However, after taking in extraordinary income of Fl 845m from the sale of Philips Car Systems to Mannesmann VDO, net profits rose 76 per cent to Fl 1.56bn. The group confirmed its forecast of double-digit earnings growth for the whole year.

Analysts pointed out that margins had improved in most sectors, and expressed relief about the limited impact of the Asian troubles on the company's activities. Philips shares rose sharply in Amsterdam, closing up Fl 18.30 at Fl 185.30.

Semiconductors reported a particularly strong performance, with margins above 22 per cent. Mr Hommen did not foresee any downturn in the near future. Philips plans to invest at least Fl 1.2bn in semiconductors this year.

Lucent results, Page 23

Volvo shares hit as first quarter profits weaken

By Tim Burt in Stockholm

Shares in Volvo yesterday fell by almost 13 per cent after the Swedish automotive group announced weaker-than-expected first quarter figures and warned it was suffering from rising production costs and intense price competition.

The company's most commonly traded B shares closed down SKr30.50 at SKr240 as industry analysts reacted with dismay to pre-tax profits down to SKr2.27bn ($292m) in the first three months of the year, from SKr5.25bn.

Although the 1997 figures were flattered by a SKr3bn gain on share disposals, this year's first quarter profits were SKr600m-SKr700m below market expectations.

Of Volvo's largest divisions, operating profits in cars fell from Skr1.07bn to SKr915m and from SKr309m to SKr297m in construction equipment. Profits in trucks rose from SKr304m to SKr636m.

Leif Johansson, chief executive, said Volvo would embark on further cost-cutting measures to offset pricing pressures and increasing production costs for its P23 saloon car, to be launched this year.

"In order to attain a higher operating margin, work is now being intensified to further reduce cost levels," he added.

Mr Johansson also hinted that Volvo might withdraw from non-core areas. Volvo's non-automotive operations include marine, industrial and aero engines.

"There are going to be changes in Volvo's structure; we are going to develop and invest in important segments and leave segments where operations can be better run under another ownership structure," he said.

Volvo's first quarter difficulties were exacerbated by sharply reduced demand in Asia, where sales fell by 22 per cent following the economic crisis in the region. The decline, accounting for 6 per cent of group turnover, was offset by solid sales growth in western Europe and North America.

Operating margins, however, shrank from 4.5 per cent to 4 per cent as underlying operating profits rose modestly from SKr1.88bn to SKr1.96bn, while sales jumped 17 per cent from SKr41.9bn to SKr48.8bn.

Earnings per share, calculated on a 12-month basis, fell from SKr22.90 to SKr16.80. Excluding exceptional items, they rose slightly from SKr12.70 to SKr13.

Industry analysts said they were most disturbed by Volvo's warning over pricing pressures. "These pressures raise the prospect of an extended period of weaker margins," said John Lawson, at Salomon Smith Barney in London.

Other analysts said they were reducing their full-year profit forecasts of around SKr12bn by between 7 and 10 per cent, compared with SKr13.2bn for 1997.

Lex, Page 20

Lean times for Lonrho's African assets

Lonrho, the unravelling conglomerate, is once again trying to split off its diverse portfolio of non-mining interests in Africa, which range from sausage making in Kenya to cotton ginning in Uganda. However, the timing may not be ideal. Report, Page 28

Boeing first quarter earnings fall 90%

By Michael Skapinker, Aerospace Correspondent

Boeing, the world's largest aircraft manufacturer, yesterday said continuing production problems and a price war with Airbus Industrie, its European rival, caused its first quarter net earnings to tumble to $50m from $540m last year.

Boeing said manufacturing difficulties, which last year led to the suspension of its assembly lines for a month, were now focused on its new generation of 737 narrow-bodied aircraft.

The group made a $219m after-tax provision for expected losses on the aircraft in the first quarter – in addition to a $437m provision last year. Boeing warned there might be more charges related to the 737 as it triples production from seven to 21 aircraft a month. It said the production problems and strong price competition from the Airbus A320 family, meant it would sell the first 400 new generation 737s at a loss.

Boeing's woes follow a net annual loss of $178m in 1997 – its first for 50 years. Its manufacturing problems, caused by "the steepest production increases since the dawn of the jet age", meant it could deliver only 108 of the 115 aircraft it had promised to airlines in the first quarter.

Harry Stonecipher, president, said: "We are not proud of that, but 108 is a heck of a lot of aircraft." Mr Stonecipher, former chief executive of McDonnell Douglas, which Boeing acquired last year, admitted Boeing had displayed insularity and arrogance in the period leading up to its production difficulties. "It is a danger for any great company that has had a lot of success. One of the problems that you can fall into as you try to express your pride is that it can turn into arrogance. I suspect that all great companies have that problem."

Boeing said the difficulties with the new generation 737 were the result of changes that had to be made because of flight test and certification requirements. Excluding research and development expenses and the charge against expected losses on the 737, the operating margin of Boeing's commercial aircraft division fell to 4.8 per cent in the quarter compared with 11 per cent in the same period last year.

Philip Condit, chairman, said the company could not raise prices in spite of high demand from airlines. "This is a market characterised by long-term orders. It is not like buying cereal off a shelf.

"Airlines are making decisions for 30 years ahead. There is intense competition in the marketplace and the market is where prices are set." The group said margins would remain under pressure throughout 1998.

Liffe endorses limited reform

by Edward Luce in London

The London International Financial Futures and Options Exchange yesterday endorsed a series of reforms aimed at staving off the increasingly fierce competitive challenge from its German rival, the Frankfurt-based Deutsche Terminborse. But the proposals, which will be put to a vote of Liffe's 215 members next month, stopped a long way short of the radical changes demanded by its critics.

Under the package – put forward by Liffe's 24-member board of directors after a heated two-day meeting – Liffe will transform itself into a commercial and profit-based organisation. At present, the exchange distributes profits to its members and exists solely to defend the interests of its members. The exchange will also simplify its six-tiered shareholding structure and encourage outsiders to take a stake in the company. However, it would, it said, remain "predominantly owned by existing members of the market".

It will, however, allow outsiders to buy the right to trade directly on the electronic trading system it plans to introduce alongside its "open outcry" trading floor in the second half of next year.

"For the first time we will be able to act unequivocally as a commercial company taking decisions purely on a commercial basis," Daniel Hodson, Liffe chief executive, said yesterday.

Several leading members of the exchange said the package was considerably less radical than the proposals originally put to the board. These included the creation of a new supervisory board with a majority of independent directors. Under yesterday's proposal, the existing board remains dominated by members.

"The heart of the Liffe's problem is that directors on the board act in the interests of their member firms and not necessarily for the collective interest of the exchange," said one former board member yesterday.

Critics also attacked the reforms for lacking detail. Many decisions have yet to be taken.

Lex, Page 20

Glaxo 'wanted Leschly out'

By Daniel Green

Sir Richard Sykes, chairman of Glaxo Wellcome, the UK's largest drugs company, demanded the resignation of Jan Leschly, chief executive of UK rival SmithKline Beecham, as part of the price of a merger between the two companies.

Mr Leschly revealed the story of how the deal collapsed in February when he appeared before a UK parliamentary committee on science and technology yesterday.

He said that because Glaxo had broken the deal, a return to merger talks was extremely unlikely.

The resignation demand was one of several changes to an "understanding" that turned what could only have worked as a merger of equals into a takeover, Mr Leschly said.

He said the two companies would have benefited from merging, but only if one did not impose its culture on the other.

"The two companies remain strong individually, and that is better than having a failed marriage between them," he said.

Separately, he said that this was the second time talks between the two companies had failed: there had been four months of negotiations in 1995 on merging the two companies' research and development operations.

A single R&D organisation would have supplied new medicines to separate manufacturing and marketing companies. That deal failed because the two sides could not find a mechanism for deciding which discoveries would be sold by which company.

Mr Leschly told the committee that on January 24, the day the Financial Times published news that SmithKline was in merger talks with US rival American Home Products, Sir Richard telephoned him.

"Richard said: 'Is it too late?' and I said 'no'," said Mr Leschly.

There followed six days of "intense discussions" that culminated in the announcement of a merger of equals jointly led by the two men.

It came as a shock when Sir Richard called a private meeting in New York for February 20 and said, according to Mr Leschly, the deal as it stood would not work.

"There was no explanation for this," said Mr Leschly. "What was presented was a takeover without a premium.

"By breaking the deal they destroyed our board's trust and confidence in their board."

HONG KONG CP POKPHAND ASKS LENDERS TO AWAIT PAYMENT ON US$100m OF NOTES

CP unit reviews financial position

By Louise Lucas in Hong Kong and William Barnes in Bangkok

CP Pokphand, the Hong Kong subsidiary of Thailand's CP Group, has asked lenders to await payment on almost US$100m worth of notes while it reviews its financial position.

Failure to agree to the request could result in default of payments, CP Pokphand warned yesterday.

CP Pokphand, an agribusiness conglomerate with interests taking in retail and telecommunications, is the latest company to hit financial problems in the wake of the Asian financial crisis.

Analysts say the group, which diversified aggressively and is heavily geared, was a likely casualty once the Asian economies began to falter and banks tightened lending.

The CP Pokphand floating rate notes are due in 2000, but their holders sought to use a get-out clause to redeem the notes today. CP Pokphand balked at this, and has called a meeting for next month to ask holders "to revoke all redemption notices" given on the notes.

Sumet Jiaravanon, director, said: "The directors have decided to make this request in view of the continuing review of the current financial position, including the present working capital requirements and cash flow position of the company and the ongoing confidential discussions which the company will be having with the lenders."

The meeting will also ask note holders to refrain from taking legal action against the company, so long as it continues to meet interest payments.

Redeeming the FRNs now would require $92.8m plus interest of $3.5m, CP Pokphand said. Holders of two further tranches of notes, worth a principal $285m, will be asked to avoid taking legal action – none has yet sought early repayment.

The group is taking steps to improve its financial position, and is negotiating the sale of its 50 per cent stake in Shanghai-Ek Chor Motorcycle to a Chinese partner.

The revelations that the sprawling CP business empire is suffering awkward financial problems has come as a surprise to some Bangkok-based observers. It was thought that the cheaper baht would be a boon to CP's export businesses, especially its trademark agro-industrial ventures, and that foreign borrowings would be offset by foreign earnings.

One listed entity without foreign earnings but foreign debts to the tune of approximately US$1bn is TelecomAsia, which holds the fixed-line telephone franchise for Bangkok and raised money on what have turned out to be over-ambitious forecasts. TelecomAsia announced last month that it would raise Bt7.8bn in fresh capital – though without detailing how this would be accomplished.

Positive developments lift gloom surrounding Petron

Full deregulation and a more stable currency have eased the Philippine oil company's problems, writes **Justin Marozzi**

When Freddie Webb, chairman of the Philippine Senate's energy committee, recently launched Kontra Kartel, a group calling for immediate cuts in oil prices and a halt to deregulation, Petron, the country's largest petrol group, must have wondered whether it was destined always to be a political football.

The Philippine government, said Mr Webb, a senator seeking re-election in national polls next month, was being manipulated by both the International Monetary Fund – which strongly supported deregulation of the oil sector – and Petron, Shell and Caltex, the "Big Three" oil companies.

Mr Webb's outburst highlighted the public's hostile attitude to the big three and also helped reinforce the widespread perception that they are operating as a cartel in a deregulated environment.

Notwithstanding these histrionics, the fortunes of Petron, which is 40 per cent owned by the state and 40 per cent by Saudi Aramco, appear to be on the mend following the company's annus horribilis of 1997. Then, the foreign exchange crisis pushed up crude oil prices – which represent 80 per cent of the group's costs – while a freeze on price rises imposed by the Supreme Court prevented the group compensating for the weaker peso.

As if that were not enough, the same court threw out as unconstitutional the law deregulating the oil sector. By the end of the year, Petron made a loss of 631m pesos ($16.6m), its first for 22 years.

Recent positive developments have removed much of the gloom. The present stabilisation of the peso at about 38 to the dollar, and softening of world crude prices have eased pressure on Petron.

Furthermore, last month the government announced full deregulation of the oil sector, well ahead of the anticipated June deadline. This reduced the public sector's ability to make damaging populist interventions to fix prices.

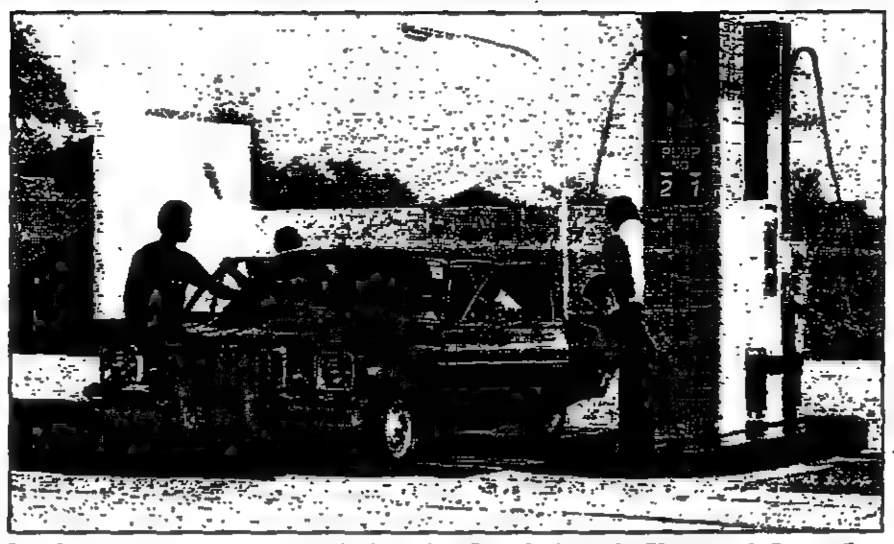
The good news has not been lost on investors – Petron's shares have risen 70 per cent over five months.

"Profits are obviously going to improve from the bloodshed of last year," says Alex Connor, head of research at Indosuez WI Carr in Manila, who is forecasting net income of 1.6bn pesos in 1998.

However, Ms Connor notes weaknesses in the short-term outlook for sales of industrial products – which represent about one-third of group turnover – as well as Petron's dependence for another third of its sales on Napocor, the largest state-owned utility whose financial position the World Bank recently called "precarious". An additional worry for Petron is that Napocor is shifting its power supply mix away from oil.

Moreover, the regional refining outlook is bleak, with a level of overcapacity not seen for several years. Refining margins in Singapore, the regional leader, averaged 78 cents a barrel, the lowest in six years, says one analyst, and the situation has worsened. For seven out of the first eight weeks of 1998, refiners in Singapore were operating in the red.

As a result, Petron's margins are expected to face renewed pressure, particularly in the newly deregulated environment.



Pumping up: prospect of improved profits has helped Petron's shares rise 70 per cent in five months

Earlier this month, the group announced an average price cut of 1.5 per cent, the first reduction since deregulation. This followed a 7.5 per cent price cut last month. One analyst is forecasting gross margins of 10.7 per cent this year, a leap from 3.9 per cent in 1997, but still behind the 1996 level of 14.7 per cent.

Virginia Ruivivar, head of investor relations at Petron, believes the regional overcapacity will eventually bring new competition but says that a trend has yet to emerge.

"If the new players start importing products from Singapore, of course we'll have to match those prices and we'll see some squeeze on margins. As long as that doesn't happen, and so far I don't think the margins have been sufficiently attractive for importers, we can dictate prices."

Ms Ruivivar also plays down the impact of full deregulation on competition, including the removal of the old tariff differential, under which imported oil was taxed at 7 per cent compared with 3 per cent for refined products. Competition will only begin to be felt in earnest in 1999, she argues.

Rey Marquez, executive director of the Philippine Institute of Petroleum, a trade association, disagrees.

"There is already competition. There is no question about it, the new players are back in force and they're really bullish," he says.

Last year, new entrants captured 9 per cent of the market for liquid petroleum gas, 7 per cent for kerosene, 3 per cent for fuel oil and 3 per cent for diesel. Not that Mr Marquez doubts Petron's ability to face off the new players.

"Petron has the best of both worlds," he says. "If for any reason buying crude and refining it is not as attractive as buying finished products like diesel and gasoline, they'll switch and they'll get better leverage with the suppliers abroad because of the higher volumes.

"Let's face it, after 60 years, the big boys like Petron are not going to make it easy for the new players."

NEWS DIGEST

CONGLOMERATES

First Pacific nets US$18m from sale of bank stake

First Pacific, the Hong Kong-based pan-Asian conglomerate, has sold its stake in United Commercial Bank of California, the company said yesterday. First Pacific, along with Indonesia's Salim Group, which owns 31 per cent of the conglomerate, sold its entire stake in the bank for an aggregate US$120m. The bank was previously 85 per cent owned by the Salim Group and 15 per cent by First Pacific, which was responsible for overall management.

The sale will realise US$18m for First Pacific, 11 years after it made the purchase, and will result in an exceptional gain of about US$5m. **Louise Lucas, Hong Kong**

JAPAN

Supermarkets report losses

Two of Japan's largest supermarket chains fell into the red last year and sold assets to prop up their balance sheets. Both blamed their problems at least partly on the collapse in consumer spending.

Daiei, Japan's largest supermarket operator, reported its first pre-tax loss but managed a net profit by selling property and shares in a convenience store subsidiary. On a parent-company basis, pre-tax losses were Y25.83bn ($196m) for the year to February 28, compared with a profit of Y591m the previous year. Net profit was Y1.1bn, down from Y1.24bn.

Seiyu reported its first unconsolidated net loss, of Y25.24bn, and halved its dividend. Its results were dragged down by an extraordinary loss of Y128.5bn, mainly relating to an affiliated finance company, Tokyo City Finance.
Bethan Hutton, Tokyo

THAILAND

Provisioning hits banks

Thai banks yesterday continued to report large declines in first-quarter results because of large provisioning for non-performing loans.

State-owned **Krung Thai Bank**, the country's second largest commercial bank, said net profit for the quarter fell 85 per cent to Bt378,000 ($9,700). The bank made new provisions worth Bt2.77bn in the period.

Siam Commercial Bank saw net profits fall 95 per cent to Bt116.75m. Earnings per share fell from Bt5.85 to Bt0.21 after a capital increase of 619m new shares late last year.

Bank of Ayudhya, the country's fifth largest, swung from a net profit of Bt1.21bn to a net loss of Bt529m. **Thai Military Bank**, the sixth largest, lost Bt1.27bn, compared with a profit of Bt791m. **Ted Bardacke, Bangkok**

TAIWAN

Yageo jumps 36%

Yageo, Taiwan's leading maker of resistors for personal computers, said first-quarter preliminary net profits jumped 36 per cent to T$680m (US$20.1m). Turnover climbed 24 per cent to T$720m. Including its local and overseas subsidiaries, Yageo said first-quarter combined sales rose 20 per cent to T$1.4bn.
Laura Tyson, Taipei

PAL seeks international link

By Justin Marozzi in Manila

Philippine Airlines, the ailing flag carrier, yesterday said it was in talks with international airlines with the aim of forming an alliance.

Jaime Bautista, chief financial officer, said PAL was talking with operators including Northwest Airlines, American Airlines, British Airways and Lufthansa to inject equity.

"PAL is considering investments from other airlines. We are talking about alliances – it is the trend in the industry. You can't live on your own anymore," he said.

Mr Bautista said talks were at an exploratory stage but were targeting a technical and marketing alliance that would include code-sharing.

Lucio Tan, the Chinese-Filipino tycoon and PAL chairman, would not be diluting his stake of about 70 per cent, Mr Bautista said.

The group last year doubled its authorised capital to 20bn pesos ($526m).

Like other airlines in the region, PAL has been hit by the regional currency crisis, with a sharp drop in passenger loads. Its ambitious modernisation programme, which the group said gave it the youngest fleet in the region, has also boosted foreign debt to $2bn.

Since the modernisation began, financing charges have soared with the collapse of the currency from 26.4 pesos to the dollar last July to a low of 46.55. It has since recovered to about 38 pesos to the dollar, but banks' lending rates remain high at about 22 per cent.

Mr Bautista said the group was in better health than its regional counterparts such as Garuda of Indonesia and MAS of Malaysia, in terms of dollar obligations. But PAL was still expecting to end 1998 with a loss of about 2bn pesos, which would be the fourth consecutive year of losses.

"We are all affected by the Asian crisis but we have our own market and we will be able to ride it out with or without a foreign partner," he said. "It is logical for demand to go down but we have good loads on trans-Pacific routes and domestic operations are OK. It is only in Asia and Europe that loads are not as satisfactory as we would like."

OIL SHARP FALLS IN CRUDE PRICES HIT US GROUPS' FIRST-QUARTER RESULTS

Mobil declines in line with sector

By Christopher Parkes in Los Angeles

Mobil exceeded analysts' first-quarter profit estimates, earning 88 cents a share, down from last year's $1.03. The average prediction was for earnings of 75 cents per share.

The decline was in line with overall industry results.

Increased oil production and an advance of more than 100 per cent in downstream profits offset some of the sharp fall in crude prices, although group revenues dropped almost 16 per cent to $13.6bn.

The company's margins also benefited from the joint refining and marketing venture with UK-based British Petroleum, and other cost-saving measures, which contributed about $100m to the result.

Asian downstream operations improved in spite of the regional economic troubles, and the alliance with BP helped in Europe, said Lucio Noto, chief executive.

US exploration and production profits tumbled to $80m, compared with $224m last year, while international earnings slid from $470m to $310m.

Ultramar Diamond Shamrock, one of the larger US independents, also felt the impact of an average $3 a barrel drop in oil prices during the quarter.

Its earnings for the quarter dropped from 26 cents to 22 cents before special items.

Roger Hemminghaus, chairman of Ultramar, said he estimated that the lower crude price and refining margins cost the company about 25 cents a share in the quarter.

However, Mr Hemminghaus was optimistic about second-quarter operating profits as long as refining margins continued to improve.

Motor fuel demand was quite strong and margins were significantly better, auguring an "excellent" three months, he said.

Conoco, the Du Pont subsidiary, was "cautiously optimistic" about the rest of the year after a 13 per cent fall in the first quarter.

Archie Dunham, president and chief executive, said that even though crude prices remained at their lowest level in almost a decade, gas prices had increased recently.

Sales fell 11 per cent in the first quarter to $4.8bn, and earnings of $287m were $44m lower than last time.

Lucent surges to $180m in second term

By Louise Kehoe in San Francisco

Lucent Technologies sailed past Wall Street projections, more than doubling income for its second quarter and setting a new fast pace for product development and acquisitions.

Net income for the former communications equipment arm of AT&T was $180m, or 14 cents a share, before an acquisition charge.

This compared with $86m, or 5 cents, a year ago – well ahead of expectations of about 9 cents a share.

The company took a special, after-tax charge of $157m for the acquisition of Prominet, a leader in high-speed office networking technology.

The results also included a $21m after-tax reversal of restructuring charges. Including special items, net income was $23m, or 2 cents a share.

Revenues for the quarter were $6.16bn, an increase of 26 per cent on continuing operations and 19.6 per cent on the consolidated business. Last time revenues were $5.15bn.

The company said it was bringing communications networking technologies to market faster than ever before.

"We recognise speed is the essence of competition and we are cutting product development cycles in half," said Don Peterson, chief financial officer. "We have proven that we can do it, now we have to make it our standard performance."

Lucent's revenues for equipment sold to telephone network operators and internet service providers increased 24.7 per cent, to $3.65bn. Sales of business communications systems, which include office telephone exchanges, messaging systems and call centre equipment, were up 32.3 per cent at $1.73bn.

Semiconductor sales rose 14.6 per cent to $705m. In the chip segment, Lucent focuses on devices for use in communications equipment, a market that is growing faster than other parts of the semiconductor industry.

"We are operating in fast growing markets and taking share from competitors in the North American market," said Mr Peterson. "I'm a little indifferent as to which competitors we are beating."

For the first six months of 1998, net income rose 41 per cent to $1.3bn, or 99 cents a share, excluding acquisition charges. Revenues for the half-year were $14.88bn, an increase of 19.5 per cent on continuing operations and 18.7 per cent on the consolidated business.

Colgate held back by dollar strength

By Richard Waters in New York

Colgate-Palmolive, which relies on sales in emerging markets more heavily than most other US consumer product companies, notched up a 16 per cent advance in after-tax income in the first quarter. The gain came despite a notable translation impact due to the strong US dollar.

This turned a 9 per cent advance in local currency sales into a reported revenue gain of only 1 per cent to $2.2bn.

Colgate was also hampered by the economic troubles in Asia, a region which accounted for 17 per cent of its sales during the period.

The company recorded a 10 per cent fall in sales compared with a year before, despite a 3 per cent increase in sales volumes.

However, Colgate lifted earnings thanks to robust growth in other parts of the world and cost controls.

Colgate reported after-tax profits of $196m, or 65 cents a share, both of which represented increases of 16 per cent from a year before.

US AIRLINES LOW OIL PRICES BRING RELIEF

UAL held back by Asia factor

By Richard Tomkins in New York

UAL, the holding company of United Airlines, the biggest US carrier, barely increased earnings in the first quarter in spite of the strongly positive factors that have boosted profits at other US airlines.

On a pro forma basis, assuming its employee share ownership plan was complete, net earnings edged ahead from $215m to $218m, or $1.68 a share. That was better than the $1.55 expected by analysts.

But on a reported basis, net profits sank from $85m to $35m, and earnings per share tumbled from 92 cents to 34 cents, partly because the cost of acquiring shares for employees rose in line with its higher share price.

Most big US airlines have benefited from record traffic and fares in their domestic market. But many of United Airlines' routes extend into south-east Asia, and it has suffered from the region's economic troubles.

First-quarter revenues slipped 1.6 per cent to $4bn, with the airline blaming a fall-off of traffic in the Pacific. In addition, it said, the prior year's quarter had benefited from the temporary lapsing of a federal ticket tax and labour unrest at rival American Airlines.

Like other airlines, however, United benefited from the sharp fall in oil prices, which reduced its fuel costs by more than 20 per cent.

US Airways also reported lower revenues – down 1.8 per cent to $2.1bn. This reflected a contraction of its route network last year.

The reduction of loss-making routes helped lift operating profits by 9 per cent to $192m, but net profits fell 36 per cent to $98.2m because the company's tax rate shot up from 8 to 40 per cent. Earnings per share were 96 cents, against analysts' forecasts of 94 cents.

Trans World Airlines reported first-quarter net losses down from $75.4m to $61.4m on revenues up from $762m to $765m.

TWA said it ended the quarter with cash balances of $346.1m, up from $237.8m a year earlier.

NEWS DIGEST

PHOTOCOPIERS

Xerox advance in line with expectations

Xerox yesterday reiterated its belief that sales of its new generation of digital copiers would provide the growth to see it through a difficult period in international markets. The continued bullish comments came as the US document processing company reported a 12 per cent growth in underlying earnings for the first quarter of this year, in line with Wall Street's expectations.

The impact of the stronger dollar wiped 3 percentage points from Xerox's reported revenue growth from a year before, leaving it with a 7 per cent advance, to $4.3bn.

Revenues from its new line of digital copiers jumped by 35 per cent and accounted for 39 per cent of the company's sales, up from 32 per cent in the same period last year. Earnings from continuing operations rose to $301m, or 84 cents a share. The latest figures also included a $190m post-tax charge to reflect Xerox's previously announced exit from the financial services business, leaving it with reported net income of $111m, or 32 cents a share. **Richard Waters, New York**

AEROSPACE

Bombardier orders at record

Shares in Bombardier, the Canadian aerospace and transportation group, rose C$2.50 to an all-time high of $38.50 in mid-day trading yesterday after the company reported on Tuesday that its backlog of orders was at record levels, reaching C$18.1bn (US$12.7bn) for the year to January 31, up 74 per cent on a year previously.

Bombardier reported a modest 2.2 per cent profits rise for the quarter to January 31, slightly ahead of analysts' expectations. Net income was C$150.6m, or 42 cents a share, identical to the last three months of the previous year.
Edward Alden, Toronto

CHEMICALS

Du Pont slips to $906m

Du Pont, the US chemicals company, yesterday reported first-quarter net income of $906m after charges, compared with $1.02bn a year ago. Earnings per share of 92 cents before non-recurring charges, up from 89 cents, were just ahead of analysts' estimates of 90 cents. Charles Holliday, Du Pont president and chief executive officer, said that a record performance in chemicals and speciality chemicals and a strong performance by oil subsidiary Conoco represented "a significant accomplishment when viewed in the context of slower worldwide growth, a stronger dollar, the economic situation in Asia and significantly lower oil prices". The group took non-recurring charges of $145m after tax, or 13 cents a share, in the first quarter, part of which related to the modernisation of its global nylon operations. **Tracy Corrigan, New York**

PROPERTY

Security Capital raises $1bn

Security Capital Group, the US-based real estate company, will announce today it has raised nearly $1bn in equity from institutional investors to create a new European-based company, Security Capital Global Realty, which will make acquisitions in property companies outside the US.

SC-GR also has just over $500m in equity from its parent company and is arranging a $500m credit line, giving it $2bn to invest in non-US real estate. Up to $1.5bn of that is expected to be invested within the next few months. The company has already agreed to acquire two unlisted UK property companies and is in talks to acquire a further two, as well as a quoted UK property company.
Norma Cohen, Property Correspondent

LEGAL NOTICES

FREMONT INSURANCE COMPANY (UK) LIMITED

On the 18 March 1998 the Scheme of Arrangement ... [illegible]

STEEL EARNINGS WEAKNESS AT NUCOR AND LTV BUT ARMCO BEATS FORECASTS

Mixed outcome for US producers

By Nikki Tait in Chicago

Mixed results were reported by some of the larger US steel companies yesterday, with most reporting encouraging demand and strong shipments, helped partly by the recent mild winter.

However, there were also cautionary noises about the possibility of increased imports and the potential impact this could have on domestic pricing.

This prospect has hung over the sector since the Asian crisis began to develop last year and the US dollar appreciated, although little of the anticipated rise in imports has yet materialised.

Nucor, the North Carolina-based mini-mill group, saw sales increase by 13 per cent in the 1998 first quarter to $1.14bn, with steel production rising from 2.39m tonnes to 2.74m tonnes. But after-tax profits were flat at $65.1m, and earnings per share unchanged at 74 cents.

This was below market expectations – analysts were hoping for about 77 cents, according to First Call, the research group – and Nucor shares fell 1\frac{7}{16}$ to 57\frac{1}{16}$ in early trading.

Analysts had expected relatively high scrap prices to hold the group back, but yesterday Nucor put the blame on "significantly higher than normal inventories of completed steel joist, deck and building systems products".

It said that these had been custom-made for certain buildings and that the delays in shipping had been largely weather-related.

Cleveland-based LTV also saw earnings weakness in the first quarter – although this had been anticipated by Wall Street – as the company continued to feel the impact of start-up costs at its Trico Steel joint venture.

After-tax profits were $19m, down from $27m a year earlier, with earnings per share dropping from 25 cents to 19 cents. Sales rose 5 per cent to $1.13bn, with LTV reporting lower average selling prices, but continued strong demand.

Steel-related costs, on a per tonne basis, were also cut by about 2 per cent in the year, part of an ongoing cost reduction programme.

But the company warned that foreign competition could still increase in the coming month: "Recent economic volatility and currency devaluations in Asia may also result in further increases in the level of imports of steel product in the US," it said. LTV shares eased $¼ to $12⅝.

By contrast, Pittsburgh-based Armco, one of the largest producers of stainless flat-rolled steel, saw sharply-improved profits of $20.3m, up from $9.4m a year earlier. Earnings per share increased to 15 cents, against 5 cents previously and analysts' estimates of 13 cents. Its shares jumped $$\frac{5}{16}$ to $7.

The company attributed the improvement to a better product mix, and thus better margins, following the elimination of carbon steel production at its Mansfield, Ohio, facility.

It also said it was benefiting from demand from makers of light trucks and sports utility vehicles and strong electrical steel markets. Group sales were up from $441.3m to $444.7m.

ITT to cut 1,000 jobs at pumps division

By Peter Marsh

ITT Industries, the world's biggest pumpmaker, is to cut 1,000 jobs and shut up to five plants in its pumps division.

The moves are in line with ITT's wish to remove spare capacity after its $815m takeover a year ago of Goulds Pumps, a rival US producer. But they also reflect a weakening outlook for the pump industry.

The changes will reduce the workforce at the company's pumps division to 13,000 by the end of the year. By then, the company's worldwide pump factories will be reduced from 27 to 22 or 23.

ITT, with pump sales running at about $2.1bn a year, accounts for about 14 per cent of the world's pump industry, itself a good bellwether of broad industrial growth, supplying sectors such as energy, chemicals and water treatment.

The economic crisis in Asia since last autumn is starting to hit world pump demand, according to Richard Labrecque, president of ITT's pumps division.

Spending on industry and infrastructure projects in the region was being cut back, while many of ITT's pump customers in the US were also scaling back investment projects "perhaps because of caution linked to developments in Asia".

Meanwhile, demand for pumps in Europe remained weak as governments cut back on public spending in preparation for economic and monetary union, Mr Labrecque said.

The company, which also makes defence systems, is investing $160m over the next two years in its worldwide pump plants. It is also reviewing the future of its large vehicle parts subsidiary with the option of putting it up for sale.

Earlier this week ITT announced a 26 per cent rise in first-quarter net income, from $44.3m to $55.6m, on revenues down 1 per cent at $2.14bn.

MANUFACTURING US GROUP CONFIDENT

AlliedSignal gets lift from aerospace arm

By Nikki Tait

Stronger results from its aerospace and engineered materials businesses more than offset a decline in automotive-related earnings and helped AlliedSignal, the New Jersey-based manufacturing group, report first-quarter profits of $300m after tax, up from $259m in the same period of 1997.

This translated into earnings per share of 52 cents, against 45 cents, while group sales rose by 10 per cent to $3.5bn.

The company also remained fairly upbeat about the remainder of 1998, saying that it was confident of meeting its target for earnings growth of between 13 per cent and 17 per cent.

Allied said that the impact of the Asian crisis had not been significant on the results, with the effect on demand being offset by reduced raw material costs.

But Lawrence Bossidy, chairman, sounded a few cautionary notes over second-half prospects, saying that he was still concerned about the strength of the US dollar, and the impact of the troubled Japanese economy.

"There are still some clouds on the economic horizon that I'd like to see disappear," he said.

Although the earnings result was one cent better than analysts' forecasts, according to First Call, Allied shares still slipped $¼ to $45¼ in early trading.

The company's biggest earnings gain came on the aerospace side, where net profits jumped from $99m to $149m, while sales increased from $1.4bn to $1.7bn.

Allied said this reflected demand for original equipment as well as aftermarket parts and services.

Earnings at the engineered materials business rose from $108m to $127m on sales up from $1bn to $1.1bn.

Mr Bossidy said that while some prices had been soft, input costs also fell in the quarter, helping to improve margins.

On the vehicles side, however, sales fell from $927m to $805m, while profits declined from $52m to $21m.

While the sales fall reflected the divestiture of the safety restraints unit last year, underlying profits for the vehicles businesses were still down "sharply", due to shortfalls in the automotive products division, which only broke even.

However, Mr Bossidy said he believed that this should do better as the year progressed.

Meanwhile, United Technologies, another broadly-based manufacturing group which serves the automotive, aerospace and building industries, also bettered estimates with earnings of $1.04 a share, up from 87 cents. Analysts, on average, had expected $1 and the shares nudged higher.

In net profit terms, UTC made $260m, against $234m last time on sales of $6.1bn, up 3 per cent on the previous year.

Like Allied, the company said that the strong dollar had begun to impact and that earnings per share would have been two cents higher at constant rates – but added that it expected to meet earnings expectations for the current year.

UTC saw strong profit gains from its Pratt & Whitney division, which made an operating profit up from $182m at $293m, and from its automotive interests, where profits rose from $31m to $49m.

However, the Carrier and Otis divisions saw operating profits fall, due to restructuring charges.

Flight Systems' profit was also down 8 per cent, due to lower volumes at Sikorsky, due to the timing of helicopter deliveries.

Grand old man proposes marriage

Analysts have long regarded BNY and Mellon Bank as a good fit, says **John Authers**

Bank of New York, the oldest in the US and generally regarded as one of the most staid, may at last have rid itself of its reputation for inactivity.

Yesterday's news that it has launched a bid for Mellon Bank of Pittsburgh – the *largest hostile takeover bid* in the history of US banking – seemed to ensure that it will have at least one more place in the history books, whether or not it is successful in persuading Mellon to merge.

The move represents a logical culmination to the increasing emphasis by a range of commercial banks on fee-generating businesses, such as securities processing and fund management, rather than on traditional lending.

Further, it is the strongest demonstration yet that bankers believe economies of scale, made possible by improvements in information technology, are essential for survival in these businesses. If successful, the deal would create the largest organisation in the world in several investment management-related businesses.

A combination between BoNY and Mellon has been widely regarded as a good fit by Wall Street analysts for some years, as the two banks, more than almost any of their competitors, have attempted to build fee income.

Last year, 66 per cent of Mellon's profits came from fee businesses, and the equivalent figure for BoNY was 54 per cent.

The move is the strongest demonstration yet that bankers believe economies of scale are essential for survival

The so-called "Mellon Bank Of New York" would further enhance BoNY's dominance in American Depositary Receipts with 60 per cent of the market. It would also be the largest global custodian in the world, with $5,500bn in assets, along with enjoying leadership in corporate trust (with 60,000 trusteeships), stock transfer (with 25.6m shareholder accounts), and government securities clearance, where it claims it would have more than half of the market.

This has been profitable for both of them. According to last year's survey by Salomon Brothers of the largest *50 US banks, BoNY ranked* second in terms of return on assets, and fifth in return on equity. On the same measures Mellon ranked fourth and sixth.

Since its protracted hostile takeover of the Irvine Trust in 1988, BoNY has eschewed big mergers. However, it has made a series of moves to *build scale, buying small* companies, and blocks of business from larger banks.

Over the past two years it has bought securities processing businesses from J.P. Morgan, NationsBank, BankAmerica, and Wells Fargo, which had all decided that it was better to leave custody rather than attempt to compete on a small scale.

It is already one of the big three US custodians, with Chase Manhattan, and State Street of Boston. But it has continued to signal its interest in a big deal.

Last year, shares in State Street, a Boston bank which has also built up more than $3,000bn in assets under custody, rose sharply after BoNY announced it had applied to increase its stake in the company. This was widely interpreted as an attempt by BoNY to test the water for a full takeover, but the move was abandoned *after opposition both from* State Street's management and from Massachusetts banking regulators.

Mellon, with Frank Cahouet as chief executive, has adopted a similar strategy, making greater inroads into retail fund management than any *other US bank* over the past few years via a string of small acquisitions.

It bought Dreyfus, one of the best known names in the mutual fund business, three years ago, and this year completed a *deal to buy* Founders Funds, a strong Denver-based mutual fund company.

Like BoNY, it has made no secret of its interest in a bigger deal, and last year made an $18bn bid for CoreStates Financial of Philadelphia, a bank that has made more muted moves into asset management, only to withdraw after the bid was rejected by CoreStates' management.

Significantly, the combined company would have $850bn in assets under management, ranking it second only to State Street among *banks in the booming US* fund management business.

While many banks have tried to build fund management in recent years, the industry remains dominated by independent groups such as Fidelity Investments. The emergence of a bank with a strong presence in both retail and institutional fund management would increase the pressure on its rivals to buy fund managers.

Mellon has made a string of deals under Frank Cahouet

OUTSOURCING
EDS and Banca agree $1.5bn de

CAD
Dassault jumps 30

MANUFACTURING
Geberit advances

BANKING
Creditanstalt rises

TOBACCO
Swedish Match in b

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Saga revamps shar

CAR SAFETY
Autoliv depressed b

NEWS DIGEST

OUTSOURCING

EDS and Banca di Roma agree $1.5bn deal

Electronic Data Systems of the US and Banca di Roma, the Italian commercial bank, last night signed a $1.5bn outsourcing deal for information technology, in what is being hailed as one of the biggest of its kind in Europe. In an accord that also involves EDS signing up to be a strategic shareholder in Banca di Roma, the two sides agreed that the information services provider would run all of the bank's data centres, network, desktop technology and its business applications for the next 10 years.

EDS will take a seat on the Banca di Roma board, maintaining its 2 per cent stake. The other core shareholders are Ente Cassa di Risparmio di Roma and Toro Assicurazioni, the insurance arm of the Agnelli family's Fiat group. Industry analysts said the outsourcing deal was a significant demonstration of how such operations are penetrating the European banking industry. **James Blitz, Rome**

CAD

Dassault jumps 30%

Dassault Systèmes, the French computer-aided design and manufacturing specialist, yesterday reported a 30 per cent increase in profits after what it described as a "very solid" first quarter. Net income for the three months to March 31 rose to FFr141.3m ($23.5m) on revenues of FFr596.2m, against FFr109.1m on sales of FFr480.8m a year earlier. Diluted earnings per share climbed 20 per cent to FFr1.25. **David Owen, Paris**

MANUFACTURING

Geberit advances to SFr164m

Geberit, one of Europe's leading makers of sanitary ware and drainage systems, lifted 1997 earnings before interest, taxes and amortisation 18 per cent, to SFr164m ($110m). Sales rose 5.7 per cent, to SFr957m. However, the net figure, after accounting for the costs of a highly leveraged SFr1.9bn management buy-out by Doughty Hanson, the UK venture capitalist, was a SFr1.7m loss for the 10 months to December.

Doughty Hanson has been left with 79 per cent of the equity; former shareholders have 10 per cent, and top management, 11 per cent. The LBO, which has an interest cover of about 4.5 times, has substantially reduced the group's ability to grow by acquisitions in an industry due for consolidation. **William Hall, Zurich**

BANKING

Creditanstalt rises 13%

Creditanstalt, Austria's second biggest bank, increased 1997 pre-tax profits 13 per cent to Sch7.3bn ($580m) and assets 12 per cent to Sch767.8bn. Operating income rose 8.3 per cent to Sch20.9bn and operating expenses rose 5.6 per cent, to Sch13.6bn. The group's cost income ratio fell from 66.5 per cent to 65.1 per cent. Net interest income rose 1.5 per cent to Sch10.5bn, net fee and commission income rose 15 per cent, to Sch4.5bn, and trading profits rose 42 per cent, to Sch2.4bn. Bad debt charges fell 17 per cent, to Sch2.5bn.

Creditanstalt was acquired last year by Bank Austria, the country's biggest bank. The latter agreed to continue operating Creditanstalt as a separate unit but the international operations of the two are being merged into Bank Austria Creditanstalt International, which will have Sch300bn of assets, Sch18bn of capital and 3,800 staff. **William Hall**

TOBACCO

Swedish Match in buy-back

Swedish Match, the tobacco products group, yesterday proposed a SKr1.2bn ($156m) share redemption after pledging to return surplus funds to shareholders. The company, which manufactures tobacco, matches and lighter products, said it could afford to redeem up to 35.7m shares without hampering its growth strategy. Shareholders will be able to redeem shares on a 1-for-13 basis at SKr35 a share. **Tim Burt, Stockholm**

OIL

Saga revamps share structure

Saga Petroleum, Norway's largest independent oil producer, yesterday announced it was abandoning a share structure that restricted any one individual or institution from holding more than 20 per cent of its equity or voting rights.

At present, Norsk Hydro, the Norwegian oil and gas company, is the largest single shareholder with 12.1 per cent of the equity. Foreign investors account for 42 per cent of the shares.

■ In a separate announcement, Saga yesterday awarded contracts worth NKr7.5bn ($1bn) for platform and production equipment in the Snorre oilfield. The total costs of the so-called Snorre B project, boasting capacity of about 110,000 barrels a day, is expected to reach NKr11.8bn. **Tim Burt**

CAR SAFETY

Autoliv depressed by airbags

Swedish-US car safety equipment group Autoliv said yesterday it saw continued price pressure on airbags in the second and third quarter of 1998. Blaming lower airbag prices for a poor first quarter, it said a weaker dollar should make business easier, although it did not expect a significant improvement in margins until the end of the year. For the first quarter, net profit fell from $55m, or 64 cents a share, to $42m, or 41 cents. Sales were $838m, against $834m. **Agencies, Stockholm**

GERMANY PROVISIONS FOR ASIA AND WEAKER CHIP PRICES MEAN GROUP MAY NOT REACH DM3bn NET INCOME TARGET

Siemens shares decline 5% after warning

By Graham Bowley in Frankfurt

Shares in Siemens fell yesterday after the German electronics and electrical engineering group warned that profits might undershoot its forecast this year.

Net income rose 10 per cent to DM1.19bn ($665m) in the first half of this year, Siemens said. However, it cautioned that provisions for the effects of the Asian crisis, weaker computer memory chip prices and problems with new gas turbines meant it might not meet its DM3bn net income target this year.

"The circumstances are very difficult at the moment. The forecast may be reached, it may not," the company said. The turbine problems are linked to the introduction of a new-generation product line.

Siemens said it was still unsure about the scale of provisions for risks in south-east Asia. Big projects in the region had so far been unaffected. However, new orders in Asia fell 11 per cent in the first six months, to DM6.5bn. Asian sales, however, rose 26 per cent to DM5.3bn.

"We are hoping that the prices for memory chips will increase," Siemens said.

The shares fell DM6.15 – just over 5 per cent – to close at DM113.30.

Siemens disappointed last year, but Heinrich von Pierer, chief executive, promised a robust recovery.

The company has started selling small non-core businesses but has come under pressure from investors to accelerate the pace of restructuring.

However, Siemens said yesterday it would stick to its forecasts for sales of between DM110bn and DM115bn. It would also meet its target for new orders of between DM115bn and DM120bn.

Sales in the first half of this year rose 17 per cent to DM52.1bn. New orders increased to DM56.5bn.

Better results at its industrial businesses, in its lighting units and at its Siemens Nixdorf information systems unit were the main reasons behind higher profits, Siemens said. International business was the driver of growth in sales and profits, the company said.

It continued to benefit from strong economic growth in North and South America. New orders in the region rose 26 per cent to DM13.6bn. Sales in the US rose 30 per cent to DM7.5bn. In Germany, sales rose 3 per cent to DM16.9bn.

Analysts had predicted total sales of about DM50bn and forecast total orders of about DM60bn.

The company said especially high growth was seen in Denmark, Greece, the UK and Portugal.

Heinrich von Pierer: had promised a robust recovery

Euro Disney cuts losses as visitor numbers rise

By Andrew Jack in Paris

Rising visitor numbers and efficiency gains helped cut losses at Euro Disney, the operator of the Paris-based theme park, to FFr205m ($34.2m) for the first half of its 1997-98 year in spite of rising financial costs.

The group said yesterday that both visitor numbers and spending per visitor had risen, partly in line with increases in entry prices.

Turnover was up 11 per cent to FFr2.4bn.

The news came in spite of a predicted rise in net financial charges to FFr406m as a result of its restructuring begun in 1994, compared with FFr356m in the first half of the previous year.

The company warned that the rise in net financial charges for the full year to September would be FFr120m, plus an additional FFr30m linked to the reimbursement of principal on its debt.

Gilles Pélisson, the chairman appointed last year, highlighted the growing importance of Disney Village, the shops, restaurants and entertainment complex just outside the park, to rising sales.

Park turnover rose 9 per cent to FFr1.2bn, and in its hotels and Disney Village together by 15 per cent to FFr1bn.

He stressed that the operational profit ahead of financial charges almost doubled from FFr107m to FFr227m, reflecting rising turnover, cost control measures and productivity gains.

Mr Pélisson also argued that plans for a new attraction and the development of Euro Disney's shopping centre and related property activities to the south of the park would allow it to cope with its rising financial charges.

There was a drop in exceptional gains from FFr26m in the first half last year to FFr4m this time. The group said that some of its comparative figures for 1997 had been restated.

The shares closed down 2 per cent at FFr9.80.

CHEMICALS GERMAN CONGLOMERATE STEPS UP DISPOSAL PROGRAMME

Hoechst sells polyester unit

By Graham Bowley in Frankfurt

Hoechst, the German chemicals and pharmaceuticals group, yesterday stepped up its sell-off programme by agreeing to sell its worldwide polyester activities to a group of US and Mexican investors.

Hoechst, which is transforming itself from a sprawling chemicals conglomerate into a company focused on life sciences, said it had signed a letter of intent to sell the remainder of its Trevira polyester activities to Koch Industries of the US and Grupo Xtra of Mexico.

The sale price was not disclosed but the activities have annual turnover of DM4.5bn ($2.5bn).

The sale will come as a relief to investors who have begun to show frustration at the pace of restructuring at Hoechst. Sales and profits have disappointed in recent months and Hoechst's share price has lagged behind those of German chemical rivals BASF and Bayer.

Jürgen Dormann, Hoechst chief executive, has also come under pressure from the company's workers who have protested against job cuts in Germany.

There is growing scepticism about the extent to which Hoechst will be able to raise profit margins at Hoechst Marion Roussel, the pharmaceuticals operations that are now its main business.

Last month Mr Dormann forecast that Hoechst sales would decline to between DM40bn and DM45bn this year from DM52bn last year. But this was partly because of the expected sale of the polyester interests.

Hoechst last year agreed to sell its European polyester fibres business to an Indonesian buyer. But the acquisition has been held up by financing difficulties linked to the Asian crisis, although Hoechst said talks were continuing.

The company has also agreed to sell its interests in its polyester joint ventures with Mitsubishi Chemical to its Japanese partner.

The agreement yesterday means that the US and Mexican consortium will acquire the remaining, and by far the biggest part of Trevira. The sale includes assets in the US, Europe, Mexico, China and Turkey. Separately, the consortium is also negotiating to acquire Hoechst's Canadian polyester interests.

Koch Industries, which is based in Kansas and is a raw material supplier to the polyester industry, is one of the biggest privately-held US companies. "The polyester market is fairly exciting. It is growing quite rapidly. We would therefore like to grow this business," said Edward Wilson, managing director of Koch Industries International.

Grupo Xtra is a also private company, controlled by businessman Isaac Saba and his sons.

Jürgen Dormann: has forecast drop in sales this year Reuters

In its push to focus on pharmaceuticals and agrochemicals, Hoechst has said it would consider selling, floating or finding partners for its basic chemicals business and its polymer unit.

It may also float or seek partners for Messer, which makes industrial gases, and the paints business Herberts.

Hoechst shares closed up 29 pfennigs at DM67.99.

Spanish bank steps up Latin America drive

By Tom Burns in Madrid

Banco Central Hispano, the Spanish banking group, said yesterday it was stepping up its acquisition drive in Latin America as it unveiled strong growth in first-quarter profits.

Net attributable profit rose 31.3 per cent to Pta16.3bn ($107m), after the bank put aside Pta24.7bn for future goodwill allocations and general provisions.

The result, based on improved margins across the board, puts BCH comfortably on track to meet its profits target of Pta65bn this year, against Pta43bn in 1997.

Non-performing loan coverage, excluding mortgages, rose year-on-year from 88 per cent to 110 per cent, and underlying capital gains from trading totalled Pta580bn.

The balance sheet has been further strengthened by the completion last week of a 1-for-8 rights issue that raised Pta163.8bn and lifted shareholders' equity to Pta1,020bn, a BIS ratio of 13.2 per cent.

BCH is understood to be considering the acquisition of a 20 per cent stake, worth $600m, in Banco de Galicia, the biggest network in Argentina. The deal would be done through O'Higgins Central Hispano, the Latin American holding which it jointly controls with Luksic, one of Chile's largest business groups.

OHCH's immediate target is Banco Santa Cruz, the biggest financial institution in Bolivia, accounting for 20 per cent of banking deposits. BCH's Latin American venture was pre-selected last month for the purchase of 67 per cent stake in Santa Cruz, beating competing bids from Banco Bilbao Vizcaya and Banco Santander, BCH's domestic rivals.

Latin American assets currently contribute 25 per cent to BCH's group income; under the expansion strategy this is expected to rise to 35 per cent.

The group is also due to increase its industrial portfolio in Spain where it is a significant investor in the electricity, construction and telecommunications sectors.

It plans to buy up to 15 per cent of Retevisión, the second domestic telephone operator, through its alliance with the power group Endesa. It is also bidding for 28 per cent of FCC, Spain's largest construction group.

● **Bouygues**, the French construction group facing pressure to slim down its diverse range of activities, has sold its nearly 4m-share holding in BCH, writes David Owen in Paris.

It said the FFr735m ($122.5m) raised by the disposal would result in a capital gain of FFr220m in its first-half 1998 accounts. Martin Bouygues, chairman, has submitted his resignation as a director of the bank.

Yesterday's announcement came more than a year after BCH sold its 3 per cent stake in Bouygues for Pta15bn.

Bouygues is under pressure from Vincent Bolloré, a French financier who has taken a 10 per cent interest in the group, to sell its telecoms activities. But Mr Bouygues insisted earlier this month that the company did not intend to dispose of any of its main lines of business.

BCP to sell 28% holding in BPA

By Peter Wise in Lisbon

Banco Comercial Português, Portugal's second largest financial group, is to make a public offer of up to 28 per cent of Banco Português do Atlântico, worth Es161.7bn ($881m) at market prices.

BCP, which already owns 75.4 per cent of BPA, will first acquire a further 20.69 per cent of the bank from Império, the insurance company that participated in BCP's takeover of BPA in March 1995.

BCP will acquire 22.76m BPA shares from Império at Es2,800 each, the price paid in their joint acquisition of BPA. BCP said it would then make a public offer of BPA shares that would reduce its stake to no less than 67 per cent.

The price of the offer has not yet been announced. BPA shares soared yesterday to close at Es5,250, up from Es3,800 at Tuesday's close. Analysts said the shares were volatile because BPA shares have a free float of less than 5 per cent.

BCP said it expected the offer to attract strong interest from investors as a result of its investment in repositioning the BPA brand, updating computer systems, modernising its branch network and expanding the cross-selling of financial products within the BCP/BPA group.

Low-yielding, non-strategic assets owned by BPA had also been sold for a total of Es84bn, BCP said.

BCP announced the offering as it posted a 34.8 per cent increase in net consolidated profit for the first quarter, to Es9.2bn, up from Es6.8bn in the same period last year. The result was slightly above market expectations.

Earnings per share rose 17.5 per cent to Es58.3, taking into account a share capital increase last year.

Operating costs fell to 47.3 per cent of total income from 56.4 per cent in first quarter of last year.

Analysts said BCP was proving particularly successful in controlling costs, which have remained virtually flat over the past two-and-half years.

Restructuring costs dent first quarter for Scania

By Tim Burt in Stockholm

Scania, the Swedish heavy truck manufacturer, yesterday blamed restructuring costs in Latin America and pricing pressures elsewhere for a 4 per cent decline in first quarter profits.

Although turnover rose from SKr8.6bn to SKr10.4bn ($1.35bn) in the first three months of the year, pre-tax profits fell from SKr677m to SKr582m year-on-year.

The company said profits were dented mainly by a SKr200m restructuring at its plants in Brazil and Argentina, where the introduction of its new 4-series truck had led to redundancies and increased production and marketing costs.

That restructuring – of which SKr100m was incurred on job cuts and the remainder on production changes – helped reduce Scania's market share in Brazil, its single largest market, from 43.2 per cent to 32.2 per cent.

"The second quarter will also be affected by the changeover in Latin America, but to a lesser extent," said Leif Östling, chief executive.

He added that order bookings were subdued in Latin America and moribund in south-east Asia. Difficulties in those markets were compounded by depressed prices in western Europe.

According to Scania, the introduction of new vehicles by European manufacturers led to heavy discounting of older models, which undermined the benefits of higher year-on-year volume sales.

That helped reduce operating profits from SKr642m to SKr629m in the first quarter.

Earnings per share fell from SKr2.10 to SKr1.95, and the shares closed down SKr9.50 at SKr181.50.

Scania shares have fallen 11 per cent over the past month, but industry analysts said the outlook for the group still remained relatively positive.

Disruption in Latin American production is expected to ease in the second quarter, while order bookings in western Europe and the emerging markets of central and eastern Europe are growing strongly.

In the first three months of the year, the western European heavy truck market grew by 30 per cent against the first quarter of 1997 to about 50,000 trucks.

Scania, which has 16 per cent of that market, predicted that total demand for new trucks could reach 200,000 units this year.

The company did not disclose divisional profits. But it said first-quarter truck sales rose 20 per cent to SKr6.22bn, against SKr5.16bn last time.

Bus sales, by comparison, rose from SKr677m to SKr778m; engine sales rose from SKr85m to SKr88m; and turnover in service-related products increased from SKr1.32bn to SKr1.51bn.

Greek bank share offering restarted

By Vincent Boland in London

The Greek government, keen to capitalise on a spectacular re-rating of the country's stock market after saying it was gearing up for membership of European monetary union, has restarted a partial privatisation of the National Bank of Greece, one of the country's main banking groups.

A global offering of up to 10 per cent of the bank, that could raise $250m, is about to get under way and is expected to be completed by the middle of May.

Shares in NBG, which is already listed on the Athens stock exchange, have soared in the past few weeks along with the overall market after the government said it hoped to join the euro in 2001.

The announcement was accompanied by a devaluation of the drachma, which led to a rush of foreign investment in Greek stocks. The stock market has risen nearly 70 per cent in the past five weeks.

The NBG offering was originally to have been completed last November but was postponed in the wake of a collapse in confidence in emerging market issues after the Asian financial crisis.

Now, the bank has moved to the top of a growing list of Greek companies expected to come to the market this year after an official pledge to step up progress on privatisation.

Merrill Lynch and SBC Warburg Dillon Read are joint global co-ordinators for the NBG issue, with HSBC Investment Banking named as senior co-lead manager.

The NBG offering coincides with another share offering from General Hellenic Bank.

The Greek army pension fund is selling one third of GHB, which will be followed by a rights issue. The total value of that transaction is about $73m.

NBG's share price closed at more than Dr54,000 yesterday. At the end of January, they were trading at under Dr20,000. Pricing for the new tranche of shares is expected to be announced in May.

Trial reviews requested at Brit Biotech

Andrew Millar, the recently-dismissed head of clinical trials at British Biotech said yesterday he had unsuccessfully requested emergency reviews of two drug trials central to the controversial company's commercial strategy.

He said he believed the biotech company's spending plans were too heavily predicated on the success of the trials of the drug Zacutex for acute pancreatitis and of the cancer drug marimastat when used to treat pancreatic cancer.

"All I wanted to do was to reconcile the research with the business plan and go ahead at a sensible rate," Dr Millar said yesterday.

The revelations further dent British Biotech's battered image. This has been affected by delays to approval to sell drugs to an investigation by the US Securities and Exchange Commission into the accuracy of its press releases.

The company was once capitalised at close to £2bn and seen as the flagship of the UK biotech sector. Its capitalisation is now only £370m ($618m). Analysts calculated the share price of 53½p yesterday is only 20p above its break-up value.

Some fund managers are now lobbying for Keith McCullagh, who refused Dr Millar's request, to be replaced as chief executive of British Biotech.

The reviews requested by Dr Millar would have provided an early assessment of trial results. If these were poor, British Biotech could have changed or discontinued the trials. It is thought Mr McCullagh turned down the request for reviews because he believed they would cause delays and damage investor confidence.

The success of the drugs in the two trials, due to conclude in the first half of next year, are central to the company's plans to become an integrated drugs company. Marimastat has forecast peak sales of £875m a year and Zacutex of £350m.

Good results would make it easy for the company to raise money for expansion. Analysts forecast it will need a cash injection by the end of next year at the current rate of spending.

Dr Peter Jensen, development director and chief medical officer said: "It was not appropriate because it would have increased risks...if you do an unplanned interim analysis you attract a statistical penalty [from drugs regulators]. This means you have to increase the number of patients in the trial which also increases costs - or accept that the power of the proposition you are trying to prove will be reduced."

Dr Millar was dismissed after discussing the issue with senior fund managers at Perpetual, the investment manager which holds 8 per cent of British Biotech's shares.

The company dismissed Dr Millar on Monday, alleging he had leaked confidential information to third parties. Dr Millar is understood to be considering taking his case to an industrial tribunal.

Bank of Scotland sees end to the good times

By George Graham

The Bank of Scotland warned yesterday that the good times for UK lenders might be coming to an end, while it revealed a 12 per cent increase in pre-tax profits to £742m ($1.24bn) in the year to February 28.

Bad debt provisions rose by 25 per cent to £219m, but remained flat in relative terms at 0.4 per cent of the bank's loan book.

However Peter Burt, chief executive, warned that credit quality could not stay this high indefinitely: "I think this is going to be as good as it gets. I don't know whether it's going to be the end of this year or next, but I am pretty certain there is going to be a deterioration."

Bank of Scotland continued to expand its lending much faster than most UK banks, increasing its market share from 5.48 per cent to 6.13 per cent and its mortgage loan book by 20 per cent.

Expenses rose 6 per cent to £980m, cutting the cost:income ratio from 52.5 per cent to 50 per cent.

Mr Burt predicted that Bank of Scotland would still be able to produce growth. "We have only got 6 per cent of the market. I see no reason why we can't add another 3 percentage points in the next five years."

But margins came under pressure, particularly in Capital Bank, the finance house.

Richard Coleman, banking analyst at Merrill Lynch, commented: "They clearly were struggling a little to produce much growth by their standards."

Sainsbury's Bank, a joint venture with the supermarket group launched in February 1997, has now raised £1.5bn of deposits and £400m of loans. Although still loss-making, it is losing less than expected as it has managed to widen its interest spreads.

BankWest, the group's Australian subsidiary, increased pre-tax profits 9 per cent to A$163.7m ($109.80).

Pre-tax profits were depressed by a £37.1m write down of leases following last year's Budget (offset at the post-tax level by a reduction in the tax charge) but improved by a £26.4m gain on the sale of the corporate trustee services division.

Merger talk lifts Smurfit shares

By Jonathan Ford

Shares in Jefferson Smurfit, the Irish multinational paper and packaging group, touched a 12-month high yesterday on speculation about an imminent merger between its US corrugated cardboard unit, Jefferson Smurfit Corporation, and Stone Container, the US cardboard maker.

The deal would allow Smurfit to restructure JSC, in which it holds a 46.5 per cent stake. The Irish group has been seeking either to raise its shareholding or merge JSC with another North American group.

Smurfit described the situation as "fluid". The shares rose to a high of 213p, before slipping back to close 4½p up at 211½p.

Shares in Stone, listed on the New York Stock Exchange, rose $¼ to $14¾ in early trading. However, those in JSC, quoted on Nasdaq, were down $¼ to $18¾.

Analysts said a merger between JSC and Stone would be welcome as it would reduce competitive pressure in the US cardboard industry. Demand has weakened since the Asian financial crisis.

Strong demand fuels Avis Europe

By Jonathan Ford

Alun Cathcart, chairman of Avis Europe, expects strong economic growth in continental Europe to fuel demand for the group's services this year. However, he was more cautious about the UK, which represents about 20 per cent of sales.

"The UK has been growing like a wonder economy in the last few years, but looks as if it is slowing down."

Avis, which is the largest European car rental operator, with a market share of about 17 per cent, said demand for car rental services in its markets was rising at more than three times their rate of GDP growth.

Operating profits in the year to February 28 increased 6 per cent to £106.6m ($178m) on turnover slightly lower at £508.8m.

Results in sterling terms were depressed by the appreciation of the pound. Avis said that in Ecu terms, sales were 15.5 per cent higher at Ecu 741.9m, while operating profits rose from Ecu 126.2m to Ecu 155.9m. Volumes rose by 18 per cent.

Pre-tax profits rose 32 per cent to £75.6m. The group floated last April.

Alun Cathcart (right) with David Meloney, M Ashley Ashwood

COMMENT

UK interest rates

The news that a hawk changed into a dove at the last meeting of the Bank of England's monetary policy committee will be interpreted by the market as a sign that UK interest rates have peaked. With the pound bubble already pricked by a rallying D-Mark, this will remove a much more important prop. That is good news for exporters and some retailers. Their cries of pain had already been heeded by four MPC members, alongside the related slowing of economic growth. It could also provide a fillip for equities, as many industrial stocks have been hindered by the high pound's adverse effects on their profits – with British Steel as the classic example.

But exporters should not count their chickens all at once. Charles Goodhart was apparently partly swayed by the stabilisation of earnings growth. A resurgence could cause doves to change back into hawks. And a weak pound would be bad news for inflation. A change of mind is not a crime, but it can cut both ways.

BT

It sounds like every regulator's nightmare. British Telecommunications is to be allowed to throw its weight around in the broadcasting market. Imagine a tie-up with that other regulatory bug-bear, British Sky Broadcasting, and the nightmare becomes a sleepless night. How will ITV companies survive the onslaught? Will this be the coup de grâce for cable, just as the industry seemed to be getting its act together?

The truth is this news makes little difference to any of the players. Broadcasting is no honeypot, as the cable companies well know. The light at the end of their duct lies in offering cheap telecoms packaged up with new internet services. The time for them to panic is if or when BT starts investing billions of pounds to transform the local network into a broadband one. BT will make far more money out of the demand for data transmission than out of broadcasting entertainment. It is technology, not regulation, that threatens to hold back BT.

The right to broadcast is of some marginal use to BT. It might help the company tailor specialist channels, or make more use of internet clips. But the regulator can afford to sleep easy. BT has enough sense not to throw away its money trying to entertain the masses.

MINISTRY OF FINANCE OF THE REPUBLIC OF LATVIA

would like to announce that the winner in the international tender "Production and Supply of Excise Tax Stamps for Alcohol and Tobacco Products" is the company "De La Rue International Limited" which procured the rights to conclude public procurement agreement on production and supply.

COMPANIES AND FINANCE: UK

Long gestation and untimely birth for Lonrho Africa

Andrew Edgecliffe-Johnson gives the background to the forthcoming demerger of the non-mining assets

Mark Newman's third child is due within a week of May 7 - the day when Lonrho will cut the umbilical cord from its African trading assets. The gestation of Lonrho Africa, where Mr Newman is chief executive, has taken rather longer, and the timing of its birth is even more awkward.

Talk of demerging Lonrho's diverse non-mining interests, which range from sausage making in Kenya to cotton ginning in Uganda, began in 1995. This is the unravelling conglomerate's third attempt.

Mr Newman makes it clear that Lonrho Africa would have liked more say over when to leave the nest. If this were a flotation, rather than a demerger dictated by its parent, "we could be looking at a fourth attempt," he admitted over dinner in Nairobi's venerable Norfolk Hotel, one of the prizes of Lonrho Africa's portfolio.

The timing is certainly not ideal. Not only did operating profits fall from £54.7m to £42.3m ($70.6m) last year, but trading conditions have turned against its five divisions since then, and analysts predict profits will slump to £29.4m this year.

The El Niño weather system has washed away crops and roads in East Africa, leaving consumers less able to afford Lonrho Africa's products, which range from potent maize beer at a few pence a litre to top-of-the-range Toyota trucks.

Pre-election violence in Kenya has scared tourists away from some of the hotels, and political turbulence in Zimbabwe has cut agricultural vehicle orders by 70 per cent. Currency devaluations in many of Lonrho Africa's 14 countries mean profits are worth less in sterling.

There can be little argument with Lonrho Africa's marketing line that it is "a unique investment". The prospectus includes the unusual warning: "The directors believe that although breaches of applicable laws have occurred in certain territories, any action taken as a result by regulatory authorities or others will not have a material adverse effect."

The bad news about recent trading obscures some genuine strengths, however. For example, the motor division has the franchise for Toyota, the largest vehicle brand in sub-Saharan Africa.

A visit to the Farmers Choice pig processing plant —a euphemism for an abattoir and sausage factory – in Nairobi also demonstrates Lonrho Africa's ability to make the most of volatile markets. With its poorest customers suffering from the impact of El Niño, it has brought out a Spam look-alike which costs less than dog food.

Unique companies present problems, however. There is no comparable listed company on the London Stock Exchange, and Mr Newman says the question asked most often by analysts on a tour of its operations this month was: "How should we value you?"

Two weeks after the trip, most have yet to complete their reports. Roger Chaplin of T Hoare believes the group's net assets are worth £190m, but says the shares could start trading at two-thirds that level.

Charles Kernot, an analyst with Paribas, admits to much "scratching of heads" about the company, but is tentatively looking for a valuation of just over £200m.

A £48m silver spoon from Lonrho will help, letting Lonrho Africa pay off its more expensive debts.

But many Lonrho investors will not be interested in an African conglomerate, whatever its attractions, and the shares look likely to start off at a discount. Such a prospect raises the possibility of bids for some or all of Lonrho Africa's divisions.

Given growing South African interest in hotels in sub-Saharan Africa, competition for motor franchises, and the commanding market positions of Lonrho Africa's agribusinesses, the awkward child may soon be surprisingly popular.

Mobil and Monument strike deal

By Arkady Ostrovsky

Mobil, the US oil group and Monument Oil and Gas, the UK independent exploration company, have extended their interests in oil rich Turkmenistan, by forming a strategic alliance with the former Soviet republic to develop its onshore oil fields.

The alliance, signed yesterday in Washington by the Turkmen president, covers the exploration and production of a 4,500 sq km area onshore in western Turkmenistan.

A production sharing agreement, to be signed later this year, would give Mobil, the operator, 52.4 per cent, Monument 27.6 per cent and Turkmenneft, the state oil company, 20 per cent.

Mobil and Monument already have 45 per cent and 35 per cent stakes respectively in the adjacent 2,000 sq km Nabit Dag area, which has oil reserves of about 2bn barrels, with a recovery factor of between 25-35 per cent.

Bill Guest of Monument, said the potential of the new Garashsyzlyk, or "Independence", area was "as great or greater than that of Nabit Dag". However, the cost of developing the fields could be about $1bn.

Monument's shares gained 1½p to 62½p. Last year Monument reported a 28 per cent increase in reserves to 138.2m barrels of oil equivalent, with virtually all of the increase coming from Turkmenistan. It currently produces about 10,000 b/d from the region.

Mobil and Monument were the first two western oil companies to develop Turkmenistan reserves.

Pensions fillip for Sun Life

By Christopher Adams

A jump in sales of personal pensions and unit-linked high income bonds helped Sun Life & Provincial Holdings, the UK insurance arm of France's Axa Equity & Law, lift new life business 11.9 per cent in the first quarter, despite internal restructuring.

Expressed as regular premiums plus a tenth of single premiums, UK new business rose from £91.4m to £102.2m ($170.7m). Analysts said the growth rate compared favourably with competitors.

Shares in the company, in which Axa has a 72 per cent stake, rose 5½p to 609p.

Sales of single premium pensions, rose from £226m to £268m. Overseas, single premium sales fell 12 per cent to £77m, with new business down in Germany and the Netherlands.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Avis Europe	Yr to Feb 28	508.6	(-)	75.6	(-)	10.1	(-)	2.5★	June 4	-	3.75	-
Bank of Scotland	Yr to Feb 28	-	(-)	742	(664.1)	38.9	(31.6)	6.4	June 19	5.31	9.66	8.22
Bellway	6 mths to Jan 31	173.3	(154.4)	22.8	(17.9♥)	14.2	(10.9)	3	July 1	2.7	-	8.2
Bentalls	Yr to Jan 31	104.3	(97.3)	11.7♥	(3.77)	31.86	(7.48)	3.15	June 8	2.18	3.85‡	2.78
Cosalt	6 mths to Mar 1	46.5	(44.7)	2.3♥	(1.65♠)	13.22	(8.72)	4.5	July 24	4.1	-	11.25
DFS Furniture	6 mths to Jan 31	130	(128.3)	18.2	(18.7)	11.83	(11.84)	4.4	June 18	3.9	-	12.7
JJB Sports	Yr to Jan 31	203.6	(130.8)	34.2	(20.3)	25.5	(14.45)	4.5	July 2	3	6.75	4.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Advance UK	6 mths to Feb 28	112.9	(98.1§)	0.176	(-)	0.35	(-)	-	-	-	-	-
Aurora	59 weeks to Feb 28	132.32	(97.76)	0.548	(-)	3.8	(-)	2.4	May 27	-	2.4	-
Invesco Convert	6 mths to Feb 28	130.05	(116.81‡)	0.312	(0.321)	2.06	(2.14)	2.2	May 29	2.1	-	4.2
Scottish Mortgage	Yr to Mar 31	437.4	(339.4)	21.7	(24.6)	8.01	(8.82)	3.65	July 1	3.5	5.35	5.15

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ◊Aim stock. ‡Excludes 10p special. ★Foreign income dividend. §At Nov 24 1997. ‡At Aug 31 1997.

CONTRACTS & TENDERS

KPLC

THE KENYA POWER & LIGHTING COMPANY LIMITED
INVITATION FOR EXPRESSIONS OF INTEREST FOR TWO POWER PROJECTS

The Kenya Power & Lighting Company Ltd (KPLC), currently the sole distributor of electricity in Kenya, plans to offer two power generating projects of around 55MW each for development by the private sector under a Build, Own, Operate (BOO) arrangement. Diesel plant is preferred but other technologies can be considered. Expression of interest is invited from experienced individual firms or consortia to be pre-qualified and short listed for subsequent invitation to Bid for these power projects.

The objective of this exercise is to identify potential participants in the projects and their competence to implement such projects. It is intended that a twenty year term power purchase contract will be executed between KPLC and the successful bidder.

BACKGROUND TO THE PROJECTS

The effective generating capacity available in Kenya is currently approximately 806 MW comprising Hydro (584 MW), Geothermal (45 MW) and Thermal (177 MW), including two stations operated by Independent Power Producers which have a combined total installed capacity of 88MW. The country's maximum power demand is expected to rise from 763 MW in 1997/98 to 2,349 MW by 2016/2017. The corresponding energy demand is projected to increase from 4,499 GWh to 13,626 GWh during the same period. In order to meet this demand, the country's generating capacity is projected to increase by 2,018 MW from a combination of Geothermal (576 MW), Thermal (1130 MW) and Hydro (313 MW). In the next five years 302 MW capacity of generating plant will be constructed through public sector financing and 139 MW through private financing by independent power producers (IPPs).

A recent update of the Least Cost Power Development Plan, undertaken by a firm of international consultants, recommended installation of approximately 110 MW capacity within the next 2 years on a fast track basis.

SCOPE OF THE PROJECTS

We intend to award contracts for the development under a BOO arrangement for two 55MW power plants. One of the plants will be located at Nakuru while the other one will be based at Eldoret. Bidders will be given the option to quote for either one or both plants. The sites have been identified and will be allocated under a leasing arrangement. The successful firm/consortia will be required to finance, design, supply, construct, test, commission, operate and maintain the power stations and will also be responsible for the fuel supply. These projects are required to be commissioned within the fiscal year, 1999/2000.

We contemplate seeking World Bank (IDA) guarantee, through the Government of Kenya, for the projects.

CRITERIA FOR PRE-QUALIFICATION

To pre-qualify for short-listing, interested parties shall submit satisfactory evidence to meet the following criteria:

- Evidence of participation in at least three BOO/BOT schemes involving electrical generating plants of not less than 30MW capacity each and located in developing countries is required. All the schemes should have been implemented within the past ten years. Details should also be provided of the capacity of the generators installed in these plants together with details of the plant's general operating regime. Also to be provided is information on operating hours from the time of commissioning and the total units generated whilst the plants were under the applicant's control.
- At least one of the generating plants of whatever type controlled by the applicant under an IPP agreement should have operated for a minimum of 10,000 hours in the last four year period.
- The applicants must demonstrate capability to organise the fast track design, manufacture, construction and commissioning, to acceptable international standards of power plants with installed capacity of not less than 50 MW.
- Evidence of the maintenance of the plants currently under their control to acceptable international standards should be submitted.
- The names and addresses of the organisations with which the applicant concluded Power Purchase Agreements prior to operating the plants is required.
- Description of the management/organisation structure and confirmation of a joint venture partnership by all members to the joint venture is required.
- Resumes of key individuals who will be involved in developing the projects should be provided.
- Evidence of financial standing of the applicants (and of each party to a joint venture) such as profit and loss statements, balance sheets and auditor's reports for the past five years is required.
- The capability and experience of applicants (as may be relevant to the individual consortium members) in financing, developing, operating and maintaining generating plant projects requiring a minimum investment of $60 million should be presented. Evidence of capability and experience in negotiating construction contracts and fuel oil contracts for BOO/BOT thermal power projects in developing countries should be provided.
- Evidence of incorporation in the country of domicile is required.
- Information regarding any current or potential litigation in which the applicant is involved or likely to be involved should be declared.
- The names of the Engineering, Procurement and Construction (EPC) contractor, the Operation and Maintenance (O&M) contractor and any other contractors that would be involved, including any joint venture partners and their roles, should be disclosed.

Details of the project's eventual management structure should be supplied together with information regarding the membership of any joint ventures.

The bids will be evaluated on the basis of technical and financing details, price of electricity, terms of the power purchase agreement, etc. The pre-qualified bidders will be invited to undertake a site visit and participate in a pre-bid conference in Nairobi, Kenya.

The selection of firms or consortia for participation in the bidding process will be at the sole discretion of KPLC, which reserves the right to reject any or all the pre-qualification proposals. Only pre-qualified bidders will be provided with project bid documents and invitation to submit proposals.

COMMUNICATIONS AND CLOSING DATE

All communications and requests for clarifications relating to this invitation are to be directed to the Company at the address shown below. The closing date for receipt by KPLC of completed pre-qualification statements is 1700 hours (Nairobi time) on 31st May, 1998. Completed pre-qualification statements should be submitted to:

THE CHIEF PROJECTS DEVELOPMENT & CORPORATE PLANNING MANAGER
THE KENYA POWER & LIGHTING COMPANY LIMITED, STIMA PLAZA, KOLOBOT ROAD, PO BOX 30099, NAIROBI
Fax No: 254 2 337351 Tel No: 254 2 243366

S. K. GICHURU, EBS, MBS, MANAGING DIRECTOR

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ike deal

Pensions fillip for Sun Life

INTERVIEW DONALD BRYDON, HEAD OF AXA INVESTMENT MANAGERS

Mission to spread the word on a virtual company

The man who aims to lead the first truly global asset manager without a central base talks to **Jane Martinson**

To outline the structure of his new business, Donald Brydon, the head of Axa Investment Managers, calls up a computer model that looks like a set of flying saucers.

A blue disc surrounded by circles of red represents the central service company set up by Mr Brydon and the European asset management businesses belonging to Axa, the French financial services group. The sense of virtual reality is intended. Mr Brydon would be horrified by use of the word "central". He has schooled his new colleagues in the lexicon of a virtual company.

"If anywhere, we are 'based in Europe'," Mr Brydon says. "With technology today you don't have to be a business that is based in one office. That is a model which is out of date." His belief in the new system has taken on a missionary quality. When told that the Financial Times was unlikely to abandon such old-fashioned but well understood phrases, he says: "You should educate your readers in the realities of the virtual company."

The reality of his company, "technically" – and legally – based in Paris, is an interesting one for an industry grappling with the challenge of making globalisation a reality. While the world's largest fund managers claim to be "truly global", most have profits and clients derived from one market. None has achieved two central requirements of a global company: creation of a global brand and a leading position in the world's main investing markets.

Axa's position as one of the world's biggest managers with assets of about $530bn is further complicated by a structure including full or part ownership of separate companies around the world. But Mr Brydon echoes others when he says: "We probably have the best chance of being the first truly global asset manager."

His approach derives partly from the fractured nature of the business he inherited. Axa had just merged with UAP, a rival insurer with its own asset management companies.

'With technology today you don't have to be a business based in one office'

Communication was limited in a business that now manages about $180bn from branches in Paris, London, Cologne and Brussels.

Mr Brydon, the man credited with turning BZW, the investment banking arm of Barclays, into one of the world's biggest asset managers, has maintained a sort of purdah in the past year as he sought to find the best way to bring the business together. Last week he unveiled a raft of appointments and a new office in London.

One of the first things he did on his appointment was remove the word Europe from the company's name. He also created a steering group that includes a stock-picking analyst to look at pan-European issues and a strategic analyst. Their decisions are filtered through the various businesses such as Axa Sun Life in the UK.

Individual fund managers will still be able to make their own decisions. The difference is that new monitoring tools will mean they will be judged against the recommendations of this central group. Other new functions include a strategy group to look at issues such as a single currency, and administrative functions such as a compliance and regulation officer.

Mr Brydon stresses that the central group must add value and describes it as a magnet for the disparate fund management companies: "We are not going to do this in a colonial way." An in-house document says: "Shared resources are not remote resources. The centre is everywhere."

Mr Brydon says most of the 665 employees at the various locations have been keen to work with this new geographic entity. His vision for Axa defies the expectations of some industry analysts that he would introduce the index-tracking methods that proved so successful at Barclays. Indeed, the statement of philosophy that has resulted from his deliberations over the past year starts with the "belief in the superiority of research", a fundamental for an active manager that aims to beat stock market indices.

"I have never been theological about index funds," he says. "But I am passionate about organising information efficiently, and size means you can gather information better."

He subscribes to the notion that asset management is no different from other industries, citing ice-cream manufacturing, where size can buy the best machinery and ingredients.

If successful, his approach is likely to extend to Axa's businesses in Asia. Alliance Capital, Axa's US fund management business, is expected to continue to act as a separate entity.

Initial reactions to the new structure among UK investment consultants, where Axa is relatively unknown, showed that Mr Brydon may have a struggle in redefining the lexicon. One leading investment consultant drew unfavourable parallels with groups such as Travelers, the acquisitive US financial services group, and even Hanson, the former 1980s-style conglomerate.

The opinions of such people are vital if Mr Brydon is to succeed in his goal of increasing third-party funds. But he points out that his speeches on index tracking – a favoured investment vehicle after years of good returns – met with stony silences when he first made them in the early 1980s.

MARKETING GLOBAL BRANDS

The global consumer myth

Convergence is a fiction, a market research chief tells **Alison Smith**

The global brand is real enough, but what of the global consumer? Nicholas Trivisonno, the chairman and chief executive of AC Nielsen, the US-based international market research company, believes such a character is fictional.

"There is no global consumer. Each country and the consumer in each country has different attitudes and different behaviours, tastes, spending patterns," he says.

Nielsen should know. It has a presence in more than 90 countries across three continents, and has more than 9,000 clients. Its revenue last year was $1.4bn, out of a $12bn global market research industry.

Mr Trivisonno specifically includes teenagers in his assertion, although they are often seen by marketing executives as increasingly sharing similar views and tastes.

"We are seeing changes in consumer behaviour, but not a convergence of consumer behaviour," he says. He believes the reason for this is that even though a global brand may elicit similar reactions in very different markets, the consumer will view it against different sets of rivals in the market.

"Take a global brand of soft drink. Acceptance of that product may be the same, but the competitive set in any particular country will be different – it could be still water, coffee or other types of soft drinks. You need to look behind not only reaction to the global brand but to competitors' brands."

Defining the competitive market is critical to making sensible use of market research information, and the boundaries are moving increasingly often.

Mr Trivisonno cites breakfast cereals. At one time competition for a cereal would have been from the brands it stood alongside on supermarket shelves: these days it may be with other breakfast foods, such as yoghurts. "Now it's all about share of stomach, share of thirst," he says.

Separate evidence to back his view has come from Coca-Cola's latest advertising in Russia. If there is a global consumer, surely it must be a Coke drinker.

But the Coke campaign for Russian national television diverges from the brand's advertising elsewhere, which focuses on the universality of its appeal.

An updated version of the Russian folk tale about the firebird, carrying the slogan "drink the legend", features a young man telling his story while travelling on the Moscow subway.

"Russia is a market where Coke's American values can be a mixed blessing," says Gerry Moira, executive creative director in the London office of Publicis, the French advertising agency which created the campaign.

"Arguably, this is the first time they have met any resistance to that bandwagon. Among Russian youth there is some ambivalence to American products. It's not that Coke advertising is disliked by Russians – but it isn't Russian."

The contest in this case may not be in the drinks area: "Since buying Coke can be relatively expensive in some parts of the Russian hinterland," says Mr Moira, "it is competing with other treats more generally for a share of a fairly limited purse".

TECHNOLOGY WORTH WATCHING

Meat and bone meal feed ban backed by research

US scientists have uncovered new evidence that supports a ban on feeding pigs and poultry with meat and bone meal made from the remains of cattle and sheep.

The research, published in Nature journal today, casts doubt on the assumption that certain species, such as pigs and chickens, are resistant to the transfer of prion diseases from another species. The researchers found that the infectious agent could lie dormant in a species that was not itself susceptible to the disease.

The researchers, from the National Institute of Allergy and Infectious Diseases at Hamilton in Montana, studied the impact of hamster scrapie on mice.

They found that the brain and spleen of mice infected with hamster scrapie can cause the disease when re-injected into a hamster a year later – even though the mice themselves never developed clinical symptoms.

The scientists said their results "strongly favour a decision to stop feeding ruminant-derived products to all animal species".

The use of meat and bone meal in feeds for pigs and poultry has been banned in the UK since 1996.

National Institute of Allergy and Infectious Diseases: US, tel 4063639264; fax 4063639285.

Space technique finds a shelf life

A technique that was originally developed for plant experiments on the space shuttle could be used to extend the life of fruit and vegetables in shops.

Scientists at the University of Wisconsin-Madison have developed a device that cleans the air of ethylene, the plant hormone that makes fruit and vegetables ripen and rot, using titanium dioxide, a catalyst that breaks it down into carbon dioxide and water vapour. The titanium particles are activated using ultraviolet light.

The device, called Bio-Kleen, is said to be better than existing techniques for removing ethylene because it does not require the hormone to be filtered or collected.

The technology has been licensed to KES Irrigation Systems, based in Atlanta. It says the system will increase the shelf life of perishable fruit and vegetables by more than a week.

University of Wisconsin-Madison: US, tel 6082622674; http://www.wisc.edu/

Flax fibres put body into cars

Using natural fibres to make cars might seem an extreme example of a environmentally friendly manufacturing technique. But Daimler-Benz, the German carmaker, says the strength and lightness of flax makes it a suitable alternative to glass fibre for certain applications – it has already been used in car car interior linings.

The flax fibres are separated from the stems, processed into fleece material and embedded in plastic. The material can be recycled several times and when it is eventually burned, it releases the same amount of carbon dioxide which it absorbed from the atmosphere as it grew.

Daimler-Benz: Germany, tel 7111793271; fax 7111794365.

Stars cast light on drug therapy

UK scientists are adapting a technique used to study distant galaxies to help analyse the impact of cancer drugs on human tissue. It could also help investigate the toxic effects of organophosphate pesticides on humans.

Researchers at Leicester University, who have been working on a satellite mission to be launched later this year, have developed a "digital autoradiography" system which can produce high-resolution, low noise X-ray images.

A version of the system can detect beta particles, the fast electrons given off from radioactive isotopes – a quicker way of tracking isotopes injected into living organisms than conventional photographic film-based methods. This could help biologists explore the ways that cells react with drugs and other chemicals.

University of Leicester: UK, tel (0)116 2525335; http://www.le.ac.uk/

Vanessa Houlder

Investors shift to shorter-dated UK gilts

GOVERNMENT BONDS

By Simon Davies in London and John Labate in New York

Prices continued their downward push yesterday, despite more optimism on European interest rates.

"It seems to us that we are gearing up for a tightening move from [the US Federal Reserve]. But we think that the European markets will remain relatively sheltered from this," said Andy Bevan, senior bond strategist at Goldman Sachs.

One market that was far from sheltered was UK GILTS, which fell sharply in spite of seemingly optimistic comments from Eddie George, Bank of England governor, and evidence that the fall in unemployment was slowing.

Mr George had said on Tuesday there were "encouraging signs" that domestic demand would slow in time *to stop inflation picking up*.

The market response was in part a reflection of the shape of the yield curve. Investors shifted out of the lower yielding medium-term and long-term maturities, and into the shorter-term maturities, which will benefit most if interest rates have peaked.

Joanne Collins, gilts strategist at Nomura International, said: "The long-end was getting expensive at a yield spread of 95 [basis points] over Germany, and people decided to take profits. You really need significant further gains at the short end, before the 10-year area will benefit, because of the inverted yield curve."

The June 10-year contract settled down 3/8 at 108 23/32, having fallen as low as 108%. Volume was significantly higher, with more than 142,000 contracts traded compared with 66,577 on Tuesday.

Traders said there was some stop-loss selling, as the future fell through several support levels. In the cash market, the yield spread against bunds widened by five basis points to 101 points.

However, the short sterling market rallied on the hope that interest rates have now peaked, and the gap between yields on one-year and 10-year bonds narrowed by 10 basis points.

GERMAN BUNDS continued to be in the thrall of *Wall Street, and shifted* lower with a weaker opening in the US. However, the June contract in London settled at 107.16, down 0.18 on the day, but 0.16 off its intra-day low.

There were gains at the shorter end of the yield curve, as investors took comfort from comments from two Bundesbank council members.

Klaus-Dieter Kuehbacher argued that there was "no room" for a rate increase, which was exactly what most investors would have wanted to hear. There were also positive comments from a Bank of France official suggesting that European interest rates would converge towards the French and German levels.

ITALIAN BTPS made a strong start, following the surprise timing of the 50 basis point interest rate cut on Tuesday night. However, an initial 15 basis point gain in the June future gave way to negative sentiment, as traders questioned why the Bank of Italy had only cut by half a percentage point.

The contract *settled* 0.31 lower at 118.82. However, the yield spread against bunds in the cash market remained stable.

US TREASURIES were little changed in morning trading. By early afternoon the price of the benchmark 30-year bond was unchanged at 102 23/32, to yield 5.946 per cent. Among shorter-term issues, the two-year note was unchanged at 99 27/32, yielding 5.601 per cent, while the 10-year note was down 1/32 to 98%, yielding 5.667 per cent.

The recent trend in lower Treasury prices comes at a time when economic indicators continue to show robustness in the US economy, *with few signs of slowdown*.

"Sentiment on Wall Street has shifted," said Claude Persico, economist at Dresdner, Kleinwort Benson. "A lot of investors have lost patience with the Asian effect. I think they're going to push the long bond to 6 per cent."

He said a 6 per cent long bond yield would bring buyers back into the Treasury market. In addition, Mr Persico *is expecting more evidence* in the second quarter of Asia adding to a US growth slowdown, a situation that could lower bond prices in the months ahead.

In the nearer term, investors await details of the *Japanese stimulus package* later this week.

General Motors deal includes 30-year tranche

INTERNATIONAL BONDS

By Vincent Boland

General Motors, the US motor vehicle manufacturer, broke new ground in the international debt markets yesterday with the first global long bond *from a corporate borrower*.

Continuing the flood of US motor industry bonds this week, GM issued a 30-year $600m issue priced to yield 89 basis points over the relevant US Treasury.

Syndicate bankers at Merrill Lynch, joint lead manager with Bear Stearns, said there was a growing appetite among European investors for longer-dated corporate bonds that offered a better yield than government bonds, and that the trend was likely to continue.

"There has been a reluctance among investors, outside the US in particular, to buy this type of bond, but with interest rates converging, they are diversifying into corporate credits and extending along the yield curve," one banker said.

The $600m issue was one of three tranches that raised a total of $1.6bn. The others were a $500m seven-year and a $500m 10-year. The 30-year was raised from $500m due to the strong demand.

All three tranches were *twice subscribed, with half* the seven-year and 10-year issues and 30 per cent of the 30-year issue sold to investors outside the US. The banker said international interest in the 30-year tranche had exceeded expectations, reflecting the strength of the GM name.

"General Motors was the right first name for this type of issue," he said, adding that the long bond tightened *by one basis point to trade at* 88bp late yesterday.

GM's bond followed a jumbo offering from Ford earlier this week that raised $3.25bn and reflected the popularity of very liquid issues.

ROTHMANS NEDERLAND HOLDINGS, a unit of the tobacco group, raised $660m in a two-tranche issue, the first financing under its *recently-announced* $2bn medium-term note programme. Each tranche is for $330m, with one for five years and one for 10 years.

Deutsche Bank, joint lead manager, said the bonds met strong demand across Europe and the Middle East. The five-year tranche was heavily in demand from retail investors, with institutions targeting the 10-year tranche. "Rothmans is a very strong brand name with strong cash flows," it said. Both tranches were trading at the re-offer spread late yesterday.

BANCO HIPOTECARIO, the Argentine mortgage bank, tapped the euro sector with an E200m issue, the first in the new currency from an emerging market corporate.

An official at Chase, joint lead with Paribas, said the issuer was well-known in Europe, having tapped the US dollar sector several times, and yesterday's issue met a good response.

The bond was trading at "a fraction above the fixed price re-offer" late yesterday, he added.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Rothmans Nederland Hldgs	330	5.875	99.547R	May 2003	0.45R	+115(5%-03)	Deutsche/Lehman Bros
Rothmans Nederland Hldgs	330	6.50	99.539R	May 2008	0.35R	+77(5%-08)	Deutsche/SBCWDR
BNG	300	5.875	99.751R	May 2000	0.25R	+21(5%-00)	ABN Amro/Nomura Intl
Ned Waterschapsbank(a)	250	6.125	99.771R	Feb 2005	0.325R	+39(5%-05)	ABN Amro/Salomon SB
STERLING							
British Steel(b)	200	6.75	99.122R	May 2008	0.40R	+65(7¼%-07)	HSBC Markets
FRENCH FRANCS							
Deutsche Finance Nethe(c)	3bn	5.00(e)	99.485R	Jan 2009	0.325R	+21(l)	Deutsche Bank France
ITALIAN LIRE							
Société Générale(d)	150bn	Zero	99.80R	Mar 2000	0.50R	-	Caboto
PESETAS							
TDA No 4, Class A1(f)	7.6bn	4.45(g)	99.9402	Apr 2003	0.16	-	Bear Stearns/BBV Banco
TDA No 4, Class A2(f)	16bn	[illegible]	100.00	Apr 2008	0.16	-	Bear Stearns/BBV Banco
Bankinter	14bn	5.00(i)	100.00	Dec 2008	-	-	Merrill/JP Morgan
EUROS							
Banco Hipotecario	200	9.00	99.64R	May 2001	0.625R	+355(Mar01)	Chase Manhattan Intl

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $500m. Plus 75 days accrued. b) Standard Spens call provision. c) Fungible with DM1.5bn upon Emu. d) Redemption linked to convergence between MIB 30, DAX 30, CAC 40, Ibex-35 and AEX; min 4%, max 44%. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) Secured on Spanish residential mortgages. Originator: Caja de Ahorros del Mediterraneo. Quarterly coupons. Legal maturity: 25/1/23. h) Av life: 2.6 yrs. i) Av life: 5.8 yrs. 3-mth Libor +18bp. j) Class B: Pta1.6bn, 3-mth Libor +48bp. l) Over interpolated yield. s) Short 1st coupon.

NEWS DIGEST

HEDGE FUNDS

Financial services and media sectors outperform

Hedge funds specialising in US media and communications and US financial services were the best-performing funds in the first quarter of 1998, reporting returns comfortably in excess of the *S&P 500 index*. The average fund in the US media/communications sector returned 16.1 per cent in the *first three months*, compared with a 13.9 per cent gain for the S&P 500, while the average fund in the US financial services sector reported a gain of 14.7 per cent, according to a report by Van Hedge Fund Advisors, a US investment advisory firm.

George Van, chairman, said "massive and potentially highly beneficial consolidation" in the two sectors was behind the outperformance. Hedge funds specialising in aggressive growth strategies also outperformed the S&P 500, returning gains of 14.5 per cent.

The returns from the average US and offshore hedge fund, meanwhile, were 7.5 per cent and 6.3 per cent, while the average US equity mutual fund gained 11.5 per cent.

"The average [hedge fund] manager appears to be sacrificing current returns in a volatile, if rewarding, market cycle, in favour of keeping his ammunition fresh in anticipation of a near-term market correction," Mr Van said.

In March, the average US hedge fund returned 3.5 per cent and the average offshore hedge fund 3.2 per cent, compared with a gain of 5.1 per cent for the S&P 500. The average US equity mutual fund gained 4.4 per cent *for the month*, while the average US bond fund gained just 0.4 per cent.

Vincent Boland

OPEN OUTCRY FUTURES TRADING

CBOT extends hours for DJIA

The Chicago Board of Trade, the largest futures market, said yesterday it was extending the pit-based, or open outcry, trading hours for its new contracts on the Dow Jones Industrial Average. The DJIA futures contracts, introduced last September, and the associated options contracts will now open for pit-based trading at 7.20am central time, compared with the current 8.15am. The stock market itself begins trading in New York at 9.30am eastern time – or 8.30am central.

CBOT said the change – which will take *effect next month* provided it gets regulatory approval – would allow traders to "capture market movements" following early morning releases of government statistics and economic data. It would also allow investors to send orders to the Dow pit during *European business hours. At the moment, anyone wishing to trade the* contracts during the European business day would be more likely to utilise CBOT's after-hours electronic trading system, known as Project A. Since the beginning of this month, this has allowed investors to trade the Dow contracts between 6pm and 6.45am the following morning.

The change brings the Dow contracts into line with CBOT's other main financial contracts, which also start pit-based trading earlier. The close for pit trading of the Dow contracts will remain at 3.15pm central time. *Nikki Tait, Chicago*

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Apr 22	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.7385	4.89	+0.01	+0.07	-0.02	-1.38
	10/07	10.000	120.6831	5.71	+0.03	+0.14	-0.06	-2.11
Austria	09/99	7.000	103.8000	4.12	-0.02	-0.04	+0.01	+0.17
	07/07	5.625	104.4500	5.01	+0.03	+0.05	+0.05	-0.90
Belgium	01/00	5.000	99.6900	4.16	-0.01	-	+0.11	+0.46
	03/07	6.250	108.6800	5.02	+0.04	+0.06	+0.07	-0.97
Canada	09/99	4.750	99.6100	5.04	+0.04	+0.11	+0.14	+0.20
	06/07	7.250	113.3000	5.36	+0.03	+0.11	+0.03	-1.34
Denmark	12/99	6.000	102.4500	4.38	-	-0.03	+0.11	+0.27
	11/07	7.000	113.7100	5.14	+0.03	+0.05	-	-1.45
Finland	01/99	11.000	104.5330	3.81	-0.01	+0.04	+0.10	-0.01
	04/08	7.250	115.0650	4.92	+0.03	+0.07	+0.05	-1.42
France	01/00	4.000	99.8000	4.11	-0.03	-0.04	+0.08	+0.33
	10/04	6.750	111.2300	4.70	-0.01	+0.02	+0.07	-0.65
	10/07	5.500	104.0300	4.95	+0.02	+0.06	+0.05	-0.83
	10/25	6.000	107.5300	5.46	+0.02	+0.05	+0.02	-1.20
Germany	09/99	4.000	100.0200	3.97	-0.04	-0.07	+0.08	+0.39
	11/04	7.500	115.0800	4.78	-0.01	+0.03	+0.08	-0.83
	07/07	6.000	107.6700	4.94	+0.02	+0.06	+0.07	-0.84
	07/27	6.500	114.6100	5.46	+0.01	+0.08	+0.03	-1.20
Ireland	04/99	6.250	101.0500	5.06	-0.06	+0.17	+0.58	-0.78
	08/06	8.000	119.1400	5.11	+0.02	+0.06	+0.08	-1.64
Italy	06/00	6.000	102.6000	4.56	+0.02	-	+0.06	-2.33
	05/02	6.250	105.4600	4.75	+0.01	+0.01	+0.06	-2.49
	07/07	6.750	111.6900	5.11	+0.04	+0.05	+0.02	-2.64
	11/26	7.250	123.4700	5.58	+0.04	+0.04	-0.02	-2.30
Japan	03/99	6.400	[illegible]	0.56	+0.01	-0.01	-	-0.18
	12/02	4.600	116.6200	1.12	-	-	-0.02	-0.47
	09/05	3.000	109.8400	1.58	-	-0.01	+0.02	-0.56
	09/17	3.000	109.8700	2.42	+0.01	-0.04	+0.05	-0.46
Netherlands	11/00	7.500	104.9709	4.10	-0.04	[illegible]	+0.08	+0.31
	02/07	5.750	105.8000	4.92	+0.03	+0.07	+0.07	[illegible]
New Zealand	02/00	8.500	98.1800	7.50	-0.04	-0.32	-0.20	-0.15
	11/06	8.000	107.7501	6.77	-	-0.12	-0.28	-1.30
Norway	01/99	9.000	103.3125	4.43	+0.02	+0.03	+0.19	+0.30
	01/07	6.750	109.8700	5.30	+0.02	+0.03	+0.12	-0.91
Portugal	03/99	8.500	103.6871	4.26	+0.01	+0.07	+0.24	-1.43
	02/07	6.625	111.0571	5.04	+0.02	+0.04	+0.02	-1.75
Spain	07/99	7.400	103.6000	4.21	-0.04	-0.04	+0.10	-1.36
	03/07	7.350	116.1930	5.05	+0.02	+0.05	+0.04	-1.67
Sweden	01/99	11.000	104.4216	4.60	-	-0.07	-0.09	-0.36
	08/07	8.000	120.2800	5.19	+0.03	+0.03	-0.11	-2.14
Switzerland	03/00	5.000	105.7500	1.84	-0.02	-0.06	+0.17	-
	09/07	4.500	111.0000	3.10	[illegible]	+0.09	+0.29	-0.66
UK	08/99	6.000	99.1953	6.65	-0.02	+0.08	-0.03	-0.38
	11/04	6.750	104.3750	5.94	+0.05	+0.08	-0.11	-1.52
	12/07	7.250	110.1563	5.65	+0.07	+0.10	-0.07	-1.72
	06/21	8.000	128.1563	5.78	+0.08	+0.10	-0.07	-1.94
US	10/99	5.625	100.0160	5.61	-0.01	+0.01	+0.07	-0.78
	11/04	7.875	111.6960	5.71	-0.02	+0.06	+0.10	-1.01
	08/07	6.125	102.7890	5.73	-0.01	+0.06	+0.08	-1.10
	08/27	6.375	105.6560	5.96	-0.02	+0.04	+0.06	-1.08
ECU	01/00	4.000	99.6900	4.18	-0.01	-0.03	+0.09	-0.22
	04/07	5.500	103.4400	5.02	+0.05	+0.08	+0.06	-1.30

London closing. *New York mid-day. Source: Interactive Data/FT Information

Yields: Local market standard/annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents

10 YEAR BENCHMARK SPREADS

Apr 22	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.71	+0.77	+0.04
Austria	5.01	+0.07	-0.66
Belgium	5.02	+0.08	-0.65
Canada	5.36	+0.42	-0.31
Denmark	5.14	+0.20	-0.53
Finland	4.92	-0.02	-0.75
France	4.95	+0.01	-0.72
Germany	4.94	-	-0.73
Ireland	5.11	+0.17	-0.56
Italy	5.11	+0.17	-0.56
Japan	1.58	-3.36	-4.09
Netherlands	4.92	-0.02	-0.75
New Zealand	6.77	[illegible]	+1.10
Norway	5.30	+0.36	-0.37
Portugal	5.04	+0.10	-0.63
Spain	5.05	+0.11	-0.62
Sweden	5.19	+0.25	-0.48
Switzerland	3.10	-1.84	-2.57
UK	5.65	+0.91	+0.18
US	5.67	+0.73	-
ECU	5.02	+0.08	-0.65

Source: Interactive Data/FT Information. London closing, * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Apr 22	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	97.5063	7.76	+0.01	-0.16	+2.14
Poland	07/04	7.125	BBB-	102.6682	6.59	-0.01	-0.03	+0.94
Russia	06/07	10.000	BB-	95.8000	10.73	-0.06	+0.11	+5.07
LATIN AMERICA								
Argentina	09/27	9.750	BB	97.2500	10.03	-0.07	[illegible]	+4.10
Brazil	05/27	10.125	BB-	97.3000	10.42	+0.02	-0.28	[illegible]
Mexico	05/26	11.500	BB	121.6500	9.30	-0.04	+0.20	+3.38
ASIA								
China	07/06	7.750	BBB+	105.1459	6.90	+0.01	+0.01	+1.24
Philippines	10/16	8.750	BB+	95.4353	9.27	[illegible]	+0.10	+3.49
Thailand	04/07	7.750	BBB-	95.7681	8.44	+0.01	-0.09	+2.76
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.5000	7.84	+0.06	+0.08	+2.24
South Africa	10/06	8.375	BB+	102.4089	7.96	+0.01	+0.09	+2.30
Turkey	09/07	10.000	B	102.8490	9.61	+0.01	-0.07	+3.65
BRADY BONDS								
Argentina	03/23	5.500	BB	76.1562	8.25	+0.01	+0.15	+2.38
Brazil	04/14	5.000	BB-	82.6300	9.52	+0.06	[illegible]	+3.77
Mexico	12/19	6.250	BB	84.8168	7.70	+0.01	+0.14	+1.88
Venezuela	03/20	6.750	B+	85.3800	8.20	-0.01	+0.24	+2.37

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	103.75	103.60	-0.21	103.83	103.52	71,781	111,180
Sep	103.44	103.24	-0.21	103.44	103.11	332	171

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls May	Calls Jun	Calls Sep	Puts May	Puts Jun	Puts Sep
102	1.63	[illegible]	1.90	0.02	[illegible]	0.55
103	0.67	[illegible]	1.30	[illegible]	0.25	0.86
104	0.17	[illegible]	0.77	0.36	0.64	[illegible]
105	0.02	0.05	0.27	1.21	1.31	[illegible]

Est. vol. total, Calls 17,[illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible].

Germany

NOTIONAL GERMAN BOND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	107.28	107.16	[illegible]	107.48	107.00	97166	174781
Sep	107.03	106.90	-0.18	107.05	106.67	54	1400

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
10700	0.22	0.57	[illegible]	0.96	0.06	0.41	0.76	[illegible]
10750	[illegible]	[illegible]	0.43	0.70	0.36	0.65	1.03	[illegible]
10800	0	0.16	0.27	0.50	0.84	1.00	1.37	1.60

Est. vol. total, Calls 2143[illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts 22[illegible]

NOTIONAL GERMAN BOND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	104.77	104.89	+0.13	104.95	104.77	186,369	234,956
Sep	104.75	104.76	+0.12	104.76	104.73	866	8,676

NOTIONAL MEDIUM TERM GERMAN GOVT. BOND FUTURES (LIFFE): [illegible]

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE): [illegible]

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE): [illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF): [illegible]

UK

NOTIONAL UK GILT FUTURES (LIFFE): [illegible]

LONG GILT FUTURES OPTIONS (LIFFE): [illegible]

US

US TREASURY BOND FUTURES (CBT): [illegible]

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE): [illegible]

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF): [illegible]

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Bundesbankers cannot help dollar

MARKETS REPORT

By Simon Kuper

The D-Mark held firm against the dollar yesterday even though three leading Bundesbank officials said German interest rates were on hold for now. Foreign exchange strategists said the D-Mark's vigour showed that the market's faith in the currency was growing as Europe's economies recover.

But investors are reluctant to push the dollar below the narrow range in which it has traded against the D-Mark for all of 1998. Ravi Bulchandani, senior currency economist at Morgan Stanley in London, summed up the mood of many strategists when he said: "I'm a nervous dollar bull, but a dollar bull nonetheless."

The Bundesbank officials seemed to be acting to talk down their currency, and to quell the market's recent belief that German rates would rise soon. Euromark futures contracts have been pricing in a repo rate of nearly 4 per cent for January 1999, when European monetary union is due to start. The German repo rate is now 3.30 per cent.

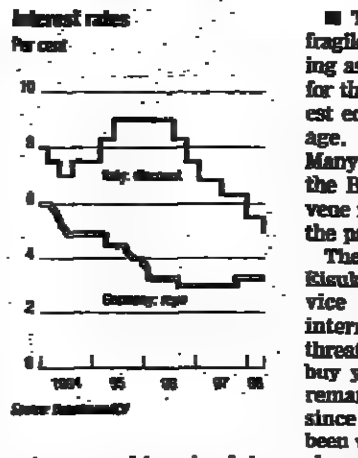
But Klaus-Dieter Kuehbacher, Bundesbank council member, said he saw "no room for a rate increase in Germany". The bank had no interest in letting the dollar slide, he added. "We want a stable euro, that should be taken care of, but should not happen abruptly. If the dollar is now at DM1.80, then we actually want only a moderate change.... If the dollar slides, that would completely change markets."

Johann Wilhelm Gaddum, bank's vice president, was quoted as saying he saw he "no acute need to act" on rates. However, he indicated that German rates might rise after this quarter, saying that the Bundesbank's decisions in the second half of the year would be guided more by European concerns. Many of the states planning to join Emu seem to require higher interest rates than Germany. But Sirkka Hamalainen, Finland's influential central bank governor, hinted that these countries – which include hers – might slow their economies by tightening fiscal policy rather than through higher European rates. "There is concern about a possible pick-up in inflation, at the core countries' interest rate level, unless fiscal policy is tightened in these countries," she said.

Reimut Jochimsen, another Bundesbank council member, said there was "no need" to raise rates. He said the dollar's recent slide did not worry him, implying that it was short-term.

The dollar firmed just 0.2 pfgs against the D-Mark to close in London at DM1.792. Most Euromark futures contracts rose 3 basis points on the slimmer prospects for German rate rises.

The National Bank of Poland cut its 28-day intervention rate by 1 percentage point.



■ The dollar was also fragile against the yen, falling as the market geared up for the details of Japan's latest economic stimulus package, due out tomorrow. Many in the market expect the Bank of Japan to intervene for the yen again when the package appears.

The dollar was also hit by Eisuke Sakakibara, Japan's vice finance minister for international affairs, who threatened that Tokyo might buy yen in the market. His remark was hardly news, since Tokyo officials have been warning of intervention almost daily. Mr Sakakibara said Japan could sell its US Treasuries "any time" to fund intervention. It was important to convince the world that Japanese assets were "a buy".

The dollar dropped Y0.8 against the yen to Y130.6.

■ The Polish rate cut took advantage of easing inflation, and was aimed at weakening the zloty. The currency has been one of the strongest in Europe, fuelled by real Polish interest rates of more than 10 per cent. The Polish market is perceived as one of the safest high-yielders after last year's collapse of Asian currencies.

The central bank's monetary policy committee cut the intervention rate from a minimum of 24 per cent to a minimum of 23 per cent. However, it left its Lombard and discount rates unchanged at 27 per cent and 24.5 per cent respectively, and said that fighting inflation remained its key objective.

The zloty fell marginally.

POUND IN NEW YORK

Apr 22	—Latest—	—Prev. close—
£ spot	1.6740	1.6745
1 mth	1.6718	1.6719
3 mth	1.6675	1.6672
1 yr	1.6500	1.6499

OTHER CURRENCIES

Apr 22	£	$
Czech Rp	[illegible]	[illegible]
Hungary	351.557 - 351.851	209.980 - 210.010
Iran	5028.20 - 5023.20	3000.00 - 3000.00
Kuwait	0.5108 - 0.5113	0.3051 - 0.3052
Peru	4.7252 - 4.7347	2.8220 - 2.8280
Poland	[illegible]	[illegible]
Russia	10.2657 - 10.2702	[illegible]
U.A.E.	6.1486 - 6.1537	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Apr 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	21.1124	+0.0087	025 - 222	21.1582	21.0359	21.0468	4.1	20.9188	3.7	20.4179	3.3	102.7
Belgium	(BFr)	61.9312	+0.0251	708 - 916	62.2040	61.7610	61.7299	3.9	61.3648	3.7	59.8143	3.3	101.9
Denmark	(DKr)	11.4451	+0.0041	400 - 502	11.4882	11.4048	11.4085	3.7	11.3482	3.6	11.1027	3.0	104.0
Finland	(FM)	9.1064	+0.0013	009 - 118	9.1430	9.0710	9.0752	4.0	9.0218	3.7	8.8079	3.3	88.2
France	(FFr)	10.0541	+0.01	590 - 692	10.1022	10.0280	10.0301	4.1	9.9803	3.8	9.7317	3.3	105.4
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Apr 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	12.6082	+0.008	100 - 075	12.6422	12.5388	12.5815	2.5	12.5427	2.0	12.3717	1.9	102.8
Belgium	(BFr)	36.9780	+0.025	510 - 050	37.0720	36.8100	36.9117	2.1	36.7975	1.9	36.3036	1.8	102.0
Denmark	(DKr)	6.8333	+0.0045	323 - 343	6.8532	6.7986	6.8225	1.9	6.8038	1.7	6.7274	1.6	103.5
Finland	(FM)	5.4370	+0.0024	353 - 386	5.4520	[illegible]	5.4272	2.2	5.41	2.0	5.337	1.8	79.9
France	(FFr)	6.0090	+0.0078	075 - 100	6.0280	5.9750	5.9976	2.2	5.9792	2.0	5.8987	1.9	105.0
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

WORLD INTEREST RATES

MONEY RATES

Apr 22	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.50	5.00	5.63
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-

$ LIBOR BBA London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
ECU Linked Dc	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

EURO CURRENCY INTEREST RATES

Apr 22	Short term	7 days notice	One month	Three months	Six months	One year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Apr 22	BFr	DKr	FFr	DM	IE	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium (BFr)	100	18.45	16.25	4.846	1.923	4791	5.466	20.11	496.5	411.7	20.75	4.014	1.615	3.873	2.704	353.2	2.448
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

D-MARK FUTURES (IMM) DM 125,000 per DM

JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

STERLING FUTURES (IMM) £62,500 per £

UK INTEREST RATES

LONDON MONEY RATES

Apr 22	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

Certs of Tax dep. (£100,000)

THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9250	0.07	0.22	0.41	0.05	0.07	0.09
9275	0.01	0.08	0.24	0.24	0.18	0.17
9300	0	0.03	0.12	0.48	0.38	0.30

Est. vol. total, Calls 14834 Puts 7032. Previous day's open int., Calls 297350 Puts 234409

EMS EUROPEAN CURRENCY UNIT RATES

Apr 22	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

US TREASURY BILL FUTURES (IMM) $1m per 100%

EUROMARK OPTIONS (LIFFE) DM1m points of 100%

EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Bank plc	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

● Members of London Investment Banking Association

* In administration

COMMODITIES & AGRICULTURE

COPPER NEGOTIATIONS RESTARTED

Zambia puts privatisation back on track

By Andrew Edgecliffe-Johnson and Kenneth Gooding

Zambia is taking action to put the privatisation of its copper industry quickly back on track by restarting negotiations with the Kafue consortium, whose offer for the country's two biggest mines was rejected three weeks ago.

Copper contributes 80 per cent of Zambia's foreign earnings, and delays to the privatisation have caused serious economic disruption. It is understood the government is considering changing the composition of the privatisation committee to facilitate new talks with the consortium.

Francis Kaunda, the former chairman of the state owned Zambia Consolidated Copper Mines who is now in charge of the mines' sale, rejected a bid from Kafue for the Nkana and Nchanga operations, which account for more than 60 per cent of ZCCM.

Mr Kaunda told the Financial Times he was talking with other bidders. "We are aiming at completing the privatisation at the latest by July, and we are confident of doing that," he said.

A reshuffling of the committee to include more people sympathetic to the government's position could make it difficult for Mr Kaunda to block any future deal with Kafue.

Kafue, the only bidder for the mines, includes Avmin of South Africa, the Commonwealth Development Corporation, Noranda of Canada and Phelps Dodge of the US. The government is understood to value the expertise these groups can bring to Zambia as much as the finance they can provide.

No details were given but Kafue is believed to have offered just over US$100m cash and agreed to spend at least $400m to revitalise the crumbling mines.

Members of the consortium indicated this week that they were still willing to take over the mines but stressed there could be no increase in their offer.

"Someone has to tell the government that the assets are not worth much – just above zero," said one representative. "The operations are only just in a commercially rectifiable state."

Some analysts suggest ZCCM's losses are running at an annual rate of $250m.

Jacob Mwanza, governor of the central bank, said: "We are limping along. We have to regroup, but we remain optimistic."

Mr Mwanza, who is also a director of ZCCM, is believed to favour a renewed bid from Kafue.

Mr Kaunda said the collapse of the Kafue bid was "not the end of the road," and that the committee had received "expressions of interest" from companies that it considered to be serious. "The door is now open to whoever," he said.

It is believed that Mr Kaunda put out feelers to see if CNNC, China's state metals group, Ispat of the Netherlands or the Binani conglomerate of India might be interested.

Mr Kaunda said the protracted talks with Zambia Copper Investments, an associate of Anglo American, over the Konkola Deep project were going well. If successful, the $800m project would be "the most important investment in Zambian mining in the last three decades", he said.

Shortage pushes palladium price to new high

MARKETS REPORT

By Kenneth Gooding and Paul Solman

Palladium's price set a new record yesterday and was "fixed" in London at $380 a troy ounce, driven higher by further uncertainties about Russian politics. The price was $43 an ounce, or nearly 13 per cent above Tuesday's afternoon "fix".

Some dealers suggested the prices were meaningless because the market was paralysed by the lack of palladium exports from Russia, the biggest producer. There was a $10 difference between bid and offer prices, which forced most trading to the "fixes", as these result in one price being quoted.

Russia failed to export any palladium for the first six months of last year and traders yesterday were becoming convinced there would be a re-run, particularly if President Yeltsin's nominee for prime minister is rejected.

There was a certain amount of panic yesterday among those who had sold palladium short – sold metal they did not own in the hope of buying it later at a lower price – particularly in Japan, the main consuming country.

"Liquidity is drying up very fast. You can't magic up metal that isn't there," said Trevor Pitts, chairman of the London Platinum and Palladium Market. "The market is continuing to function but the spreads [between bid and offer prices] will widen. The spread reached $30 [an ounce] last year and lending rates were exceptionally high at 200 per cent."

On the London Metal Exchange copper jumped to $1,910 a tonne in the morning. It closed at $1,890 a tonne, up $22, or 1.1 per cent, from Tuesday's close.

Macquarie Bank analyst Adam Rowley warned that the "squeeze" on investment funds who had sold copper short would become intense in May and June and might send cash copper prices above $2,000 a tonne.

World oil prices retreated on signs of higher US stocks. American Petroleum Industry figures, released late on Tuesday, showed a rise of 3.29m barrels in crude inventories and an increase of 1.35m barrels of gasoline.

In late trading on London's International Petroleum Exchange, Brent crude for June delivery stood at $14.43 a barrel, against Tuesday's close of $14.51.

Growers flourishing on Kenya's natural blessings

Horticultural exports have been expanding by some 20% a year, writes **Gary Mead**

While coffee and tea, Kenya's two leading commodity exports, are languishing under the weight of state-run marketing boards, the third most important is blooming, due in part to the lightest of government touches.

Kenyan horticulture exports in the past five years have flourished, growing by about 20 per cent a year. This year will be an exception, following a period of exceptionally heavy rainfall. The sector will still grow, but in single rather than double digits.

Kenya's total fresh fruit, vegetables and cut flower exports expanded from about 65m kg in 1994 to more than 84m kg in 1997.

In cut flowers alone, Kenya exported 35,736 tonnes of blooms to Europe last year, representing some 60 per cent of total African cut flower exports and earning $100m equivalent of foreign currency.

While more than 24,000 tonnes of those exports were sold via auction in the Netherlands, Kenyan cut flower growers are increasingly turning towards direct sales to European retailers.

About 1,300 hectares are given over to flower production in Kenya, the main growing areas being at Lake Naivasha and Thika.

Stiffest competition comes from Colombia, Israel and Zimbabwe, but by eschewing the Dutch auctions, Kenyan flower growers are confident they will be able to fend off their rivals.

The largest of Kenya's horticulture exporters, the privately owned company Homegrown, is now the biggest supplier of cut flowers and packed specialist vegetables to the UK-based retail chain Marks & Spencer.

With international sales of around £44m ($74m) a year, Homegrown has taken advantage of what chief executive Dicky Evans calls the "perfect growing environment" of Kenya. About 75 per cent of the group's production is vegetables and fruit; the rest is flowers.

Homegrown has grown with alacrity. In 1982, it exported just 17 tonnes of cut flowers; by 1997 the figure was 10,000 tonnes.

Mr Evans and other private sector executives are convinced the government's attitude toward the horticulture sector could be a useful model for developing the Kenyan economy as a whole: it has left it almost entirely to its own devices.

Mr Evans applauds the elimination of foreign exchange controls, the simplification of the process to obtain import licences, and the removal of duties on fertilisers, greenhouses and other essential inputs.

Exports bloom: Kenya sold 35,736 tonnes of cut flowers in Europe last year — Gary Mead

The result, according to Mr Evans, is that Kenyan horticulture now enjoys a business environment allowing it to capitalise on the country's natural blessings.

"We now export 30 tonnes of flowers, fruit and vegetables to Europe every night," he says. "Kenya sits on the Equator, which means we have perfect growing conditions, with temperatures averaging a minimum of 6 degrees centigrade and a maximum of 30 degrees centigrade. Our overseas competitors can't match the natural benefits we have here."

The plea to extend the kind of economic liberalisation enjoyed by horticulture into other commodity areas is cautiously welcomed by Moses Mudavadi, recently appointed minister of agriculture. He recognises that other sectors such as tea and coffee are burdened by red tape, but is wary.

"There is a need for cautious, gradual, liberalisation. We would like market forces to take over, the private sector to grow, and government not to be involved in production any more," he says.

"Take sugar production, where the government has the largest shareholding. Kenya is a net importer of sugar and it really shouldn't be; we have the perfect climate for sugar growing. Horticulture has been driven by the private sector and has been growing by 15 to 20 per cent a year."

Certainly, Homegrown shows what can be achieved by the private sector. Although a relatively small company by international standards, the business has developed rapidly and soundly from a standing start hardly more than a decade ago, to become a leader in Kenyan terms.

This year, Homegrown plans to reinvest £3m in expansion, and, as Mr Evans points out, the health and safety standards, as well as the quality controls he and his workers have to meet to satisfy the exacting demands of several of the UK's most exigent retailers, have to be beyond criticism.

The packaging and shipping plant operated by Homegrown at Nairobi's international airport – items picked on one day are on British supermarket shelves the day after – is a model of efficiency and cleanliness.

The outlook for both Homegrown and agricultural production in Kenya should be rosy. "The development of the agricultural smallholder sector in Kenya has been a success," says Martin Geake, regional manager for the Commonwealth Development Corporation in Nairobi.

"However, we're at a crossroads. To continue this success the central authorities need to improve efficiency and in our view the use of private sector capital would provide the quickest and most efficient means of doing that," he added.

That cautious note suggests Kenya's immediate future will probably not be a bed of roses – but horticulture does at least highlight what can be achieved.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1439-40	1468-69
Previous	1426-27	1456-56.5
High/low		1473/1456
AM Official	1433.5-40	1465.5-67
Kerb close		1456-58
Open int.	297,283	
Total daily turnover	76,965	

■ ALUMINIUM ALLOY, ■ LEAD, ■ NICKEL, ■ TIN, ■ ZINC, special high grade, ■ COPPER, grade A ($ per tonne): [illegible]

■ LME AM Official £/$ rate: [illegible]

■ HIGH GRADE COPPER (COMEX): [illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild): [illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	313.6	+2.4	314.0	313.0	115	365
Jun	314.9	+2.3	315.8	312.0	37,013	102k
Aug	317.2	+2.3	318.2	315.3	2,373	6,452
[illegible]						

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.), ■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.), ■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.): [illegible]

ENERGY

■ CRUDE OIL NYMEX, ■ CRUDE OIL IPE, ■ HEATING OIL NYMEX, ■ GAS OIL IPE, ■ NATURAL GAS IPE, ■ NATURAL GAS NYMEX, ■ UNLEADED GASOLINE NYMEX: [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	75.75	-0.35	76.15	75.75	49	1,085
Jul	77.85	-0.25	78.35	77.85	172	1,882
Sep	75.60	-0.40	-	-	-	143
Nov	77.80	-0.40	78.00	77.60	41	3,077
[illegible]						

■ WHEAT CBT, ■ MAIZE CBT, ■ BARLEY LIFFE, ■ SOYABEANS CBT, ■ SOYABEAN OIL CBT, ■ SOYABEAN MEAL CBT, ■ POTATOES LIFFE, ■ FREIGHT (BIFFEX) LIFFE: [illegible]

PULP AND PAPER

■ PULPEX: [illegible]

FUTURES DATA — All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1091	-	1093	1056	1,178	21,182
Jul	1081	-	1085	1077	1,789	20,454
Sep	1101	+2	1103	1096	505	[illegible]
Dec	1120	+3	1122	1117	190	[illegible]
[illegible]						

■ COCOA CSCE, ■ COCOA (ICCO), ■ COFFEE LIFFE, ■ COFFEE 'C' CSCE, ■ COFFEE (ICO), ■ WHITE SUGAR LIFFE, ■ SUGAR '11' CSCE, ■ COTTON NYCE, ■ ORANGE JUICE NYCE: [illegible]

VOLUME DATA: [illegible]

INDICES

■ Reuters, ■ CRB Futures, ■ GSCI Spot, LME WAREHOUSE STOCKS: [illegible]

Nuts and seeds: [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	66.250	+0.075	66.725	66.100	1,909	2,394
Jun	66.800	+0.525	66.950	66.175	10,076	48,704
Aug	69.375	+0.100	69.650	69.100	2,332	20,391
Oct	69.825	+0.100	69.975	69.500	1,319	12,181
[illegible]						

■ LEAN HOGS CME, ■ PORK BELLIES CME: [illegible]

LONDON TRADED OPTIONS

[illegible]

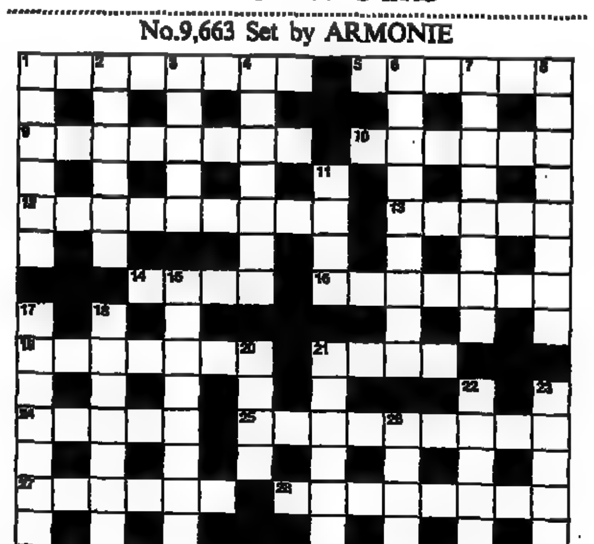
LONDON SPOT MARKETS

■ CRUDE OIL FOB, ■ OIL PRODUCTS, ■ NATURAL GAS, ■ OTHER: [illegible]

JOTTER PAD

CROSSWORD

No.9,663 Set by ARMONIE



ACROSS

1 How to carry a cutting tool in impenetrable vegetation (6)
5 Checks about a hundred Fiats (6)
9 Learning about weather in European region (8)
10 Steroid affected stable hand (6)
12 Native finds barristers in speciality buffet (6,3)
13 Road by river in the country (5)
14 Dirty canteen (4)
16 Decay found in opening throttle (7)
19 Keep an eye on the TV (7)
21 Shelter acceptable to some Rwandans (4)
24 Inferior cow? (5)
25 I reckon to get an ace (6,3)
27 Accessory for many an artist attracts tax (6)
28 Sports car register gets outside publicity (8)
29 Cash for members of the opposite sex (6)
30 Captain gets workers' clothing (3,5)

DOWN

1 Admit supporting husband in worship (6)
2 Coercion has Don going round the bend (6)
3 Eliminate queen during relaxation (5)
4 Endlessly sit on bum when confused in vehicle (7)
6 Little beast is to abscond and betray (6,3)
7 Heartless superstar's expedition (8)
8 Street car (very posh) for the vagrant (8)
11 Without a bit of sympathy shoot narrow-minded bigot (4)
15 Intern ate stew in harbour (9)
17 It's understood one representative's allowed (8)
18 Precipitation affected all of New South Wales (8)
20 Imran Khan showed class (4)
21 Socrates' killer shows a hesitation to grapple (7)
22 Sort of crab found in Lincolnshire (6)
23 Teacher has bed overturned producing litter (6)
26 Finally arrive in touring burlesque (3,2)

Solution 9,662

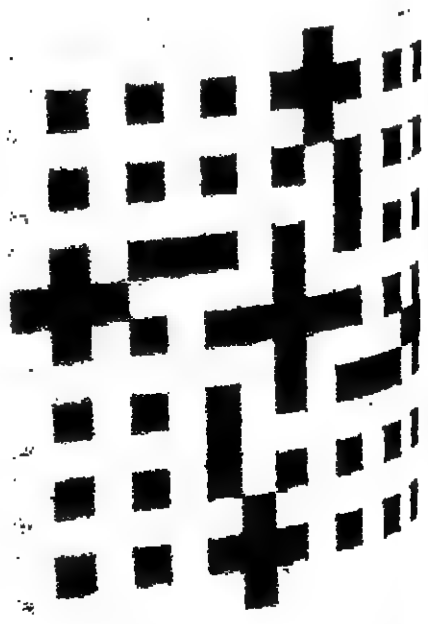
ice to new hig

tural blessings

C

JOTTER PAD

CROSSWORD



FT MANAGED FUNDS SERVICE

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

ABN AMRO Funds - Contd.

Fleming Group (u)

Mercury Asset Management - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management

Swiss Bank Corporation

Eagle Star Intl Life - Contd.

Aberdeen Fund Mngrs (Luxembourg) Ltd (a)

Equitable Life (International)

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

OTHER OFFSHORE FUNDS

هكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Old Mutual International - Contd.

Old Mutual International (Isle of Man) Ltd

Victory Hse, Prospect Hill, Douglas, IoM 01624 663000

PanEuroLife société anonyme

7, Rue de la Chapelle L-1325 Lux. 00 352 458730

The Americas Trust Bank

Apex Bank & Trust Company

Aravis Capital Advisers LLC

Aravis Clipper Ltd $128.30

Arc Investment Company Ltd

Ardent Investment Management Limited

Arbeng Partners (BVI) Ltd

Aristocrat Capital Management Ltd

Aristocrat Endeavor Fd $22.84

Armfield-Kornman Investment Mgmt Inc

Royce Hedge Fd Ltd $554.7824

Arnhold and S. Bleichroeder, Inc

Credit Suisse Asset Mgmt Funds

Credit Agricole

Crosby Asset Management

Crystal Currency Fund

Global Asset Management - Contd.

Jupiter Asset Management (Asia) Ltd

Jupiter Asset Mngt (Bermuda) Ltd

Jupiter Hedge .... £1.70 1.70 +0.16

KB Offshore Fund, C.I.

OTHER OFFSHORE FUNDS

AXA Asset Management

Aberdeen Asset Management Asia Limited

Ability Fund Limited

Adelphi Europe Fund

Africa Emerging Markets Fund

Alexandra Global Investment Fund I, Ltd

Allianz Investment Holdings N.V.

Alpha Fund Management Ltd

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Continued

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Continued

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS	[illegible]	[illegible]	[illegible]	[illegible]	1472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volumes table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these stocks are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' format.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

* Highs and lows marked thus have been adjusted to allow for capital changes.

† Interim since increased or resumed

[illegible]

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £3485 a year for each security shown, subject to the Editor's discretion.

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FT Company Focus / Focus Plus

Comprehensive 10-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.
Company Focus (FT news) £8.45.
Focus Plus (FT and Investors Chronicle news) £10.95.
To order, call 0121 209 4878.
Reports published by ShareFinder.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.
An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.
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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Financials and drug stocks drag Footsie down

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A raft of economic news provided only temporary respite for London's equity market yesterday.

The news was interpreted as reducing the chances of the Bank of England's Monetary Policy Committee recommending a rise in UK interest rates after their next scheduled meeting on May 6 and 7.

But by the end of the day the FTSE 100 had seen an early 40-point rise transformed into a 23.9 loss, with the index settling at 5,931.1.

Early in the session, an upsurge in the leaders had driven the FTSE 100 to within 5 points of the 6,000 mark, only minutes after trading commenced. The index stayed in positive territory until the early afternoon, when pockets of profit-taking proved too much for the market to bear.

But an unconvincing opening by Wall Street saw London fall further, registering a session low of 5,918.5, down 36.5, before stabilising just before the close.

Dealers insisted, however, that the market's depression was confined to specific stocks and specific areas – pharmaceuticals and insurances. "It was a quiet and difficult day," said one marketmaker.

The mood in the stock market at the start of the day was also helped by comments on Tuesday evening from Eddie George, governor of the Bank of England.

Further support during the morning session came from Wall Street's overnight move to another record high on the Dow Jones Industrial Average, which was lifted by some well-received results from IBM, the computer giant.

Underlying UK average earnings in the year to end-February rose by 4.5 per cent, in line with market forecasts, while the March unemployment rate fell to 4.9 per cent, the lowest level for 18 years.

M4 money supply rose 9.5 per cent in the year to end-March, in line with expectations.

The interest rate story hit gilts heavily, where losses at the long end of the market extended to more than a full point. Sterling, measured by the Bank of England's exchange rate index, finished marginally easier. The setback was generally confined to the leaders, however, with the FTSE 250 extending its recent gains and pushing up to hit an intra-day and closing record of 5,570.5, up 27.1. The FTSE SmallCap edged ever-closer to its previous highs, finishing 3.1 firmer at 2,634.1

Much of the damage in the FTSE 100 was caused by a serious setback in the composite and general insurance sectors after Tuesday's warning from Commercial Union of big claims arising from the recent bad weather in the UK and elsewhere.

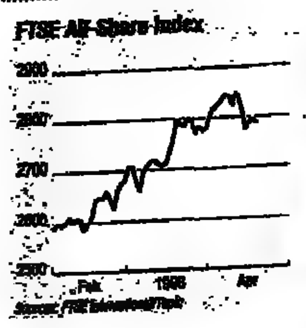
Weakness in the four composites, Commercial Union, General Accident, GRE and Royal & Sun Alliance plus general insurers Legal & General and Prudential accounted for more than 10 FTSE points.

Poorly received preliminary results from Bank of Scotland saw those shares retreat the equivalent of 2.5 FTSE 100 points.

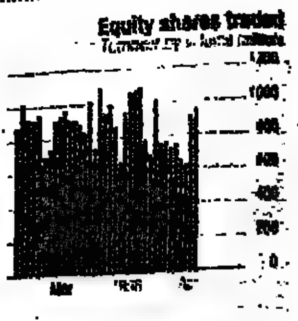
The most severe fall came from Glaxo Wellcome, which accounted for more than 12 FTSE 100 points.

Turnover in equities at 6pm was 975m shares.

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	5931.1	-23.9	FT 30	3784.8	+0.2
FTSE 250	5570.5	+27.1	FTSE Non Fins p/e	22.41	22.48
FTSE 350	2856.2	-6.7	FTSE 100 Fut Jun	5973.0	-49.0
FTSE All-Share	2785.58	-5.92	10 yr Gilt yield	5.92	5.84
FTSE All-Share yield	2.80	2.79	Long gilt/equity yld ratio	2.12	2.10

Best performing sectors

1. Electronic & Elect ... +3.1
2. Alcoholic Beverages ... +1.6
3. Engineering ... +1.1
4. Extractive Inds ... +1.0
5. General Inds ... +0.8

Worst performing sectors

1. Insurance ... -3.0
2. Pharmaceuticals ... -2.3
3. Retailers, Food ... -1.9
4. Tobacco ... -1.8
5. Life Assurance ... -1.7

Drug stocks flounder

COMPANIES REPORT

By Peter John, Martin Brice and Joel Kibazo

Drugs leaders tumbled as the market took on board a wide-ranging retreat by US brokers.

Merrill Lynch recently turned neutral on the entire UK sector for the first time in five years. Yesterday, it compounded the change of heart with forecast downgrades on SmithKline Beecham and Zeneca.

And SmithKline, which failed to set the market alight with its global research and developments last week, was hit further by a downgrade from J.P. Morgan.

Merrill started to waver after the mooted merger deal between Glaxo Wellcome and SmithKline collapsed at the end of February. In the past couple of weeks, the broker's caution on the sector leaders increased as Zeneca shares hit a demanding £28.

Merrill cut its current year earnings per share forecast for SmithKline by 3 per cent to 21.4p and its profit number for Zeneca by £26m to £1,155m.

"The market is coming to terms with the grim reality that there may be no merger, while SmithKline's R&D presentation showed it will have to take the pain before the gain," said James Culverwell, Merrill's UK pharmaceuticals analyst.

J.P. Morgan cut its SmithKline eps number from 23p to 21.8p, but maintained its share price target of 800p, which leaves the stock on 32.2 times 1999 earnings.

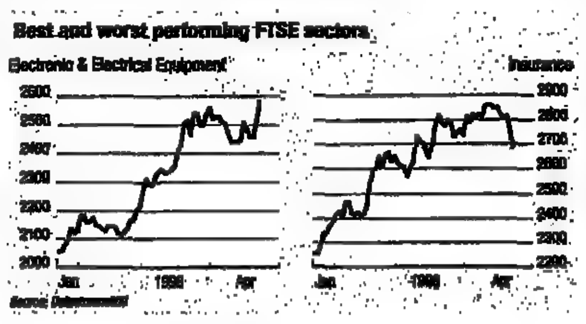
SmithKline slid 8 to 683p and Zeneca 50 to £24.61. Glaxo Wellcome lost 62 at £15.82

Insurers helped lead the market down yesterday as one of the sector bears punched in a swingeing downgrade for Commercial Union following revelations of weather-related claims.

David Hudson of Credit Lyonnais knocked £55m off his current-year profit forecast, taking it to £370m. He warned that the new forecast left the projected dividend uncovered. He also stressed an 800p share price target – a 30 per cent discount to last night's close.

"The fact of the matter is that it is not just weather but deterioration in key markets. The only thing driving the financials is takeover speculation. The reality is that margins are going down and they're going down fast," said Mr Hudson.

Best and worst performing FTSE sectors



CU fell 39 to £11.80 and General Accident, which is to link up with CU in a £14bn merger and which will hold its own annual meeting on Tuesday, tumbled 78 to £14.63. Royal &Sun Alliance slid 20½ to 725½p and Guardian Royal Exchange 10½ to to 426p.

Construction-related stocks were in the spotlight, led by Pilkington, one of the better performers in the FTSE 250, following a recommendation from Goldman Sachs. The shares rose 8½ to 123½p in busy trade of 32m shares after Goldman's construction team published a 34-page research document on the company.

The team said it reiterated its "trading buy" stance on the stock, which it estimated was worth 187p a share, 51 per cent above the share price yesterday morning.

Goldman's positive stance centred on its view that the company was restructuring in a consolidating industry, while Pilkington was also about to enjoy favourable trading conditions.

Price rises of 15 per cent on float glass were seen as sustainable, while in the US, a price war on replacement glass had ended.

Elsewhere in the building sector, the move from Beazer of director Stewart Baseley to Centex International of the US raised some eyebrows as the change was said to be part of a move into Europe by Centex. Beazer shares were static at 181p.

Bullish statements from Bellway and Persimmon emphasised recent strength in housebuilding stocks. Bellway revealed a 27 per cent interim pre-tax rise and talked of continued growth in spite of a likely slowing of sales in the second half. Bellway shares rose 7½ to 382½p.

Persimmon rose 3 to 238½p after it talked of rising margins while the market was healthy in the south-east and improving elsewhere.

JJB dull

A profits downgrade took the shine off JJB Sports, which published figures at the top end of market expectations. The shares ended the day 16½ up at 537½p after the company revealed profits at the top end of market expectations.

Dresdner Kleinwort Benson was said to have downgraded its current-year profits estimate to £42.5m from £46m, however the broker is still reported to have the stock on its "buy" list.

The house still rates the shares a "buy".

The positive sentiment in JJB Sport helped boost Blacks Leisure, which gained 18 to 378½p, and John David Sports, 2¾ ahead at 101½p.

DFS Furniture was the worst-performing stock in the FTSE 250, the shares falling 32½ to 285½p, after the group's warning that second-half profits will be below those managed in the first half due to poor Easter trading.

Shares in bid target Argos rose 6 to 518p, while those of its predator, Great Universal Store, eased 1½ to 512p as talk that the former may escape the clutches of the latter did the rounds of the market yesterday.

Shares in the UK's two biggest spirits groups moved in opposite directions as they responded to research by the drinks team at Goldman Sachs.

Allied Domecq eased 4 to 618p in trade of 2.8m after the US investment bank downgraded the stock from "trading buy" to "market performer". Goldman blamed "the slow pace of global spirits industry consolidation".

Goldman is more positive on Diageo. It not only reiterated its "recommended for purchase" stance, partly as a result of "the lack of a competitive response to last year's merger announcement", it also upgraded its profits forecast for 1999 from £1.636bn to £1.673bn and raised its near-term share price target from 775p to 850p.

Cairn Energy improved 5 to 321½p with the market readjusting to what one dealer described as a rather sloppily executed cross late on Tuesday.

Bank of Scotland announced full-year figures above the range of market forecasts, but the shares took a dive, closing 38 down at 734p on profit-taking after a good run.

FT 30 INDEX

	Apr 22	Apr 21	Apr 20	Apr 17	Apr 16	Yr ago	*High	*Low
FT 30	3784.8	3784.6	3788.5	3784.8	3816.9	2882.2	3872.4	3776.9
Ord. div. yield	2.88	2.89	2.89	2.91	2.87	3.85	4.22	2.83
P/E ratio net	24.52	24.54	24.55	24.39	24.70	17.25	25.08	15.80
P/E ratio nil	24.30	24.32	24.33	24.17	24.48	17.08	24.84	15.71

FT 30 since compilation: High [illegible]; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3784.8	3810.9	3811.7	3814.6	3809.3	3805.8	3791.1	3791.4	3792.4	3819.3	3776.9

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STOCK MARKET TRADING DATA

	Apr 22	Apr 21	Apr 20	Apr 17	Apr 16	Yr ago
SEAQ bargains	62,325	62,144	60,946	61,623	63,686	48,378
Equity turnover (£m)†	-	na	2750.4	2589.9	3035.2	2346.3
Equity bargains†	-	na	53,795	52,622	60,450	44,581
Shares traded (m)†	-	na	711.5	705.2	708.8	733.9
Total market bargains‡	-	na	64,205	66,391	60,940	na
Total turnover (£m)‡	-	na	3898.6	3619.9	4055.3	na
Total shs traded (m)‡	*975.0	na	901.8	927.0	926.5	na
Tradepoint turnover (£m)	18.4	24.0	12.6	19.9	33.3	4.7
Tradepoint shs traded	4,363	5,436	4,144	10,876	5,869	981

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	935	Total Highs	167	Total contracts	42,630
Total Falls	878	Total Lows	39	Calls	24,010
Same	1,491			Puts	17,620

Apr 22 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6025.0	5973.0	-49.0	6049.0	5962.0	17702	154962
Sep	-	6051.0	-49.0	-	-	0	7811
Dec	6230.0	6145.0	-48.0	6229.0	6229.0	2	4

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	5612.0	+23.0	-	-	0	[illegible]

■ FTSE 100 INDEX OPTION (LIFFE) (*5931) £10 per full index point

	5750 C	5750 P	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P	6050 C	6050 P	6100 C	6100 P
May	[illegible]															
Jun	[illegible]															
Jul	[illegible]															
Aug	472	187½	443	219	414½	202½	385½	255½	366	279	327	302½	298	[illegible]	276½	359½
Dec†			683½	324			666	391½			626½	401½			481½	447

Calls 1,035 Puts 821

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5775 C	5775 P	5825 C	5825 P	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P	6025 C	6025 P	6075 C	6075 P	6125 C	6125 P
May	357	70½	211½	93	179½	110	148½	129½	121	152	97	177½	76	206½	58½	236½
Jun	396½	183	314	165	288½	184	269	202	221	223½	180½	245	170	271½	147½	286½
Jul	497	185	394	199	342½	217	312½	236	284	256½	257	278	231½	302½	208	328
Sep			466	268½			426	304			368	342½			318	388
Dec†			636	324½			572	354½			512½	390			467	438

Calls 5,784 Puts 4,286 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div cov.	Grs yld	P/E net
-	F.P.	857.7	880	715	ARM Hldgs	832½	-37½	-	-	-	-
§	F.P.	-	101½	97½	Aberdeen Curzlie C	98½		-	-	-	-
*100	F.P.	35.7	102	100	Advent 2 VCT	102		-	-	-	-
-	F.P.	61.1	148	128	†Ocean Petroleum	129	-4½	-	-	-	-
-	F.P.	-	12	4	Bargol 01/03 Wts	5	+½	-	-	-	-
-	F.P.	498.1	185½	162½	Express Dairies	162½	-2½	LN0.0	1.3	8.2	18.4
§400	F.P.	201.4	498½	400	Guardian IT	452		-	-	-	79.1
-	F.P.	4.30	3½	2½	†Hartford	3		-	-	-	-
-	F.P.	10.8	107	98½	INVESCO Gbl Opps	106½	+1	-	-	-	-
-	F.P.	13.7	103½	99	Ob Zero Div Prf	103½	+1	-	-	-	-
-	F.P.	20.8	111	109	Ob 3.5% Cnv 2008	110½		Q8½%	-	7.7	-
-	F.P.	190.7	353½	326	LLP Group	333	-5	L4.7	2.6	1.8	27.1
§50	F.P.	3.25	55½	52½	Microcap Growth Tst	52½		-	-	-	-
100	F.P.	20.0	97½	97½	Murray VCT 3	97½		-	-	-	-
-	F.P.	46.7	294	183	Oldham's	234	+31½	L7.5	0.2	[illegible]	[illegible]
-	F.P.	113.8	316½	276½	Oxford Glyco	309	+20½	-	-	-	-
*	F.P.	18.0	90½	90	Quester VCT 2	90		L2.4	-	3.3	-
-	F.P.	7.06	110	66½	†Sabacom	70		-	-	-	-
-	F.P.	-	34½	34½	Transport Dev B	34½		-	-	-	-
§50	F.P.	9.80	57½	42	W	47½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Apr 21	% chg on day	Apr 20	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1266.48	+4.4	1213.81	1649.35	1.92	-	1610.93	891.33
■ Regional Indices								
Africa (14)	1153.06	+0.6	1248.04	1842.16	4.33	27.67	1064.75	821.78
Australasia (7)	1404.14	+0.4	1488.25	1876.38	2.34	30.53	1850.06	933.63
North America (11)	1265.60	+8.6	1177.59	1421.43	0.97	46.94	1574.16	864.66

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Apr 22	Day's chge%	Apr 21	Apr 20	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5931.1	-0.4	5955.0	5954.1	4387.7	2.78	2.84	2.07	21.90	58.35	2586.60
FTSE 250	5570.5	+0.5	5543.4	5528.9	4528.4	2.93	2.46	2.08	20.53	44.34	[illegible]
FTSE 250 ex IT	5613.7	+0.5	5584.9	5567.2	4568.0	3.01	2.54	2.14	19.37	45.70	2405.66
FTSE 350	2856.2	-0.2	2862.9	2861.0	2162.7	2.79	2.36	2.07	21.63	27.08	[illegible]
FTSE 350 ex IT	2860.4	-0.2	2867.3	2866.4	-	2.81	2.37	2.06	21.39	27.35	1307.04
FTSE 350 Higher Yield	2818.4	-0.1	2820.6	2815.0	2085.3	3.78	3.19	1.96	17.08	33.68	2143.42
FTSE 350 Lower Yield	2909.0	-0.4	2919.3	2920.3	2226.1	2.07	1.72	2.22	27.17	21.63	2107.94
FTSE SmallCap	2634.14	+0.1	2630.99	2627.10	2300.57	2.88	2.33	1.64	26.10	18.20	[illegible]
FTSE SmallCap ex IT	2624.20	+0.1	2622.59	2618.43	2312.25	3.08	2.50	1.60	25.33	18.67	2295.72
FTSE All-Share	2785.58	-0.2	2791.50	2788.47	2121.13	2.80	2.36	2.04	21.94	25.95	2518.25
FTSE All-Share ex IT	2791.82	-0.2	2798.13	2798.10	-	2.82	2.38	2.05	21.57	26.33	1298.48

■ FTSE Actuaries Industry Sectors

	Apr 22	Day's chge%	Apr 21	Apr 20	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4815.67	+0.7	4783.93	4881.38	4133.74	3.11	2.69	1.85	21.71	60.95	2209.52
12 Extractive Industries(5)	3309.11	+1.0	3274.88	3293.07	4124.48	4.11	3.79	2.09	14.52	76.82	1044.42
15 Oil, Integrated(4)	5388.90	+0.7	5353.31	5208.70	4282.53	3.09	2.65	1.80	22.46	62.01	2541.74
16 Oil Exploration & Prod(13)	3118.64	+0.1	3115.61	3117.84	3499.79	1.83	1.52	[illegible]	35.56	29.18	[illegible]
20 GEN INDUSTRIALS(220)	2248.65	+0.8	[illegible]	2214.14	1979.21	3.31	2.90	2.17	17.40	23.31	1317.25
21 Construction(38)	1631.22	—	1631.28	1639.14	1360.55	2.98	2.42	2.50	16.78	13.72	1449.97
22 Building Matls & Merchs(27)	1851.34	+0.5	1842.57	1835.88	1894.15	4.03	3.44	2.02	15.33	26.50	1008.40
23 Chemicals(24)	2890.26	-0.3	2899.20	2898.03	2284.59	3.26	3.03	1.84	20.89	30.36	1474.20
24 Diversified Industrials(10)	[illegible]	[illegible]	1458.40	1464.25	[illegible]	3.87	3.63	2.25	14.36	17.93	890.64
25 Electronic & Elect Equip(36)	2585.29	+3.1	2508.54	2453.36	2149.54	3.34	2.70	1.82	23.10	18.36	1422.99
26 Engineering(62)	3044.21	+1.1	3011.36	2983.22	2584.87	3.11	2.77	2.32	17.32	32.11	1959.38
27 Engineering, Vehicles(10)	4231.78	+0.4	4214.32	4134.05	2771.59	2.10	1.92	[illegible]	17.96	27.83	2324.63
28 Paper, Pckg & Printing(23)	2227.95	-0.1	2230.71	[illegible]	2451.79	4.57	3.84	2.21	12.36	27.24	1002.02
30 CONSUMER GOODS(92)	5547.74	-1.3	5621.77	5669.25	4289.86	2.60	2.38	1.83	26.17	64.70	2191.63
32 Alcoholic Beverages(6)	3927.63	+1.6	3866.99	3894.88	2978.72	2.98	2.93	[illegible]	22.79	[illegible]	1534.34
33 Food Producers(25)	4008.30	-0.6	4031.38	3995.92	2894.42	2.70	2.30	1.90	24.39	43.65	1940.71
34 Household Goods & Textls(24)	3647.83	+0.5	3628.96	3604.87	2920.63	3.01	2.88	2.22	18.76	40.14	1534.69
36 Health Care(14)	2340.19	+0.1	2336.96	2345.70	2237.30	[illegible]	1.98	2.40	[illegible]	9.49	1488.93
37 Pharmaceuticals(20)	9054.88	[illegible]	9284.42	9443.33	6787.12	2.09	1.80	1.70	38.10	86.22	3235.02
38 Tobacco(3)	4754.56	-1.8	4840.52	4777.57	4337.01	5.95	4.77	1.89	[illegible]	121.61	1328.34
40 SERVICES(278)	3405.56	-0.3	3415.61	3417.11	2885.80	2.49	2.02	1.99	25.22	17.01	[illegible]
41 Distributors(28)	2932.28	-0.4	2944.29	2933.66	2748.36	3.25	2.69	1.98	18.41	26.68	1146.18
42 Leisure & Hotels(30)	3951.42	+0.3	3938.23	3941.60	3415.89	2.53	2.03	[illegible]	[illegible]	[illegible]	2237.33
43 Media(41)	4444.30	—	4443.82	4454.19	4219.25	2.31	1.95	2.17	24.91	44.83	1681.90
44 Retailers, Food(13)	3020.95	-1.9	3079.58	3100.19	2022.53	2.86	2.29	2.18	20.06	5.74	2036.29
45 Retailers, General(49)	2360.01	-0.5	2370.81	2381.01	2080.64	3.07	2.46	2.22	18.38	11.63	1428.20
46 Telecommunications(10)	3776.75	—	3778.47	3763.41	2307.11	2.33	1.88	1.51	35.58	4.04	1836.34
47 Breweries, Pubs & Rest(24)	4249.38	-1.0	4290.54	4297.83	3286.08	2.78	2.22	2.40	18.75	15.53	2156.15
48 Support Services(62)	4894.76	+0.6	4864.35	4871.82	2908.52	1.22	1.03	2.57	40.06	13.80	3216.84
49 Transport(25)	3555.83	-0.4	3571.46	3549.03	2814.96	2.88	2.36	1.31	33.12	23.99	1579.05
60 UTILITIES(23)	3800.81	-0.2	3809.36	3782.32	2758.98	4.09	3.27	1.87	16.33	6.35	1792.46
62 Electricity(9)	4276.87	-0.3	4288.63	4260.97	2983.32	4.36	3.49	2.17	13.19	7.29	2467.52
64 Gas Distribution(2)	2760.97	-0.4	2771.57	2750.99	[illegible]	2.36	1.89	‡	‡	0.00	1581.38
68 Water(12)	3423.98	—	[illegible]	3396.68	2529.33	4.99	3.99	2.20	11.39	10.26	2079.65
69 NON-FINANCIALS(635)	2754.66	-0.3	2761.66	2754.40	2176.97	2.85	2.43	1.98	22.41	22.58	2235.12
70 FINANCIALS(109)	5814.07	-0.2	5822.81	5849.17	3895.29	2.74	2.26	2.33	19.55	74.61	2686.38
71 Banks, Retail(12)	8509.48	+0.6	8459.64	8497.60	5736.94	2.77	2.22	2.29	19.66	120.04	2960.45
73 Insurance(17)	2686.69	-3.0	2770.01	2816.50	1697.45	3.16	2.88	2.92	13.55	36.12	2211.16
74 Life Assurance(6)	7182.09	-1.7	7306.85	7348.91	4561.06	2.62	2.26	2.57	18.57	101.28	3205.54
77 Other Financial(26)	5160.22	+0.2	5147.43	5100.95	3118.34	2.12	1.78	2.20	26.88	34.98	3130.56
79 Property(40)	2379.23	-0.1	2381.94	2379.30	1871.79	2.73	2.26	1.45	31.61	10.17	1552.48
80 INVESTMENT TRUSTS(116)	3956.52	+0.2	3945.98	3949.06	3250.92	2.00	1.61	1.19	52.75	21.83	1437.13
89 FTSE All-Share(860)	2785.58	-0.2	2791.50	2788.47	2121.13	2.80	2.36	2.04	21.94	25.95	2518.25
105 FTSE All-Share ex IT(744)	2791.82	-0.2	2798.13	2798.10	-	2.82	2.38	2.05	21.57	26.33	1298.48
Information Technology	1452.65	+0.4	1447.24	1439.98	-	0.59	0.47	3.30	63.90	2.43	1456.30
FTSE Fledgling	1411.69	+0.2	1409.10	1406.88	1308.66	3.07	2.49	1.42	28.60	8.73	1657.74
FTSE Fledgling ex IT	1427.19	+0.1	1426.55	1425.73	1339.72	3.42	2.77	1.49	24.64	10.87	1580.52
FTSE AIM	1075.5	+0.6	1068.6	1069.2	-	1.14	0.90	0.57	80.00†	3.02	992.91

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	-	5984.5	5983.0	5987.2	5980.2	5966.9	5945.4	5939.5	5920.0	5996.8	5918.5
FTSE 250	-	5547.6	5554.3	5558.6	5568.0	5567.0	5556.4	5565.6	5586.5	5570.5	5544.2
FTSE 350	-	2874.9	2874.9	2877.0	2875.0	2869.9	2861.4	2859.0	2851.5	2879.1	2850.9
FTSE SmallCap	2631.96	2632.94	2633.40	2633.32	2633.47	2633.52	2633.47	2632.99	2634.03	2634.14	2631.95
FTSE All-Share	-	2802.67	2802.58	2804.50	2802.66	2798.00	2790.25	2788.06	2781.22	2806.47	2780.68

Time of FTSE 100 Day's high: 8:43:00 Day's low: 16:08:45. FTSE 100 1997 High: 6105.8 (06/04/98) Low: [illegible]
Time of FTSE All-Share Day's high: 10:25:00 Day's low: 16:07:00. FTSE All-Share 1997 High: 2847.10 (06/04/98) Low: 2380.32 (12/01/98)

Further information is available on http://www.ftse.com

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† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. Deletion: Henderson Greenfriar (FTSE SmallCap) (80).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol. 000's	Closing price	Day's change
3i	647	1025	-2
AMVESCAP	168	730	-17
ASDA Group	4,600	204	-7½
Abbey National	1,500	1173	-7
Alliance & Leicester	1,200	863	-4
Allied Domecq	2,000	618	-4
Assoc. Brit. Foods	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Apr 22 / Sch)

BELGIUM/LUXEMBOURG (Apr 22 / Frs.)

CZECH REP (Apr 22 / Koruna)

DENMARK (Apr 22 / Kr)

FINLAND (Apr 22 / Mka)

FRANCE (Apr 22 / Frs.)

GERMANY (Apr 22 / Dm.)

GREECE (Apr 22 / Drachma)

ITALY (Apr 22 / Lira)

NETHERLANDS (Apr 22 / Fls.)

NORWAY (Apr 22 / Kroner)

POLAND (Apr 22 / Zloty)

PORTUGAL (Apr 22 / Escudo)

SPAIN (Apr 22 / Pts.)

SWEDEN (Apr 22 / Kronor)

SWITZERLAND (Apr 22 / Frs.)

TURKEY (Apr 22 / TL Lira)

PACIFIC

JAPAN (Apr 22 / Yen)

AUSTRALIA (Apr 22 / Aust$)

HONG KONG (Apr 22 / HK$)

INDONESIA (Apr 22 / Rupiah)

MALAYSIA (Apr 22 / MYR)

NEW ZEALAND (Apr 22 / NZ $)

SINGAPORE (Apr 22 / S$)

SOUTH KOREA (Apr 22 / Won)

TAIWAN (Apr 22 / TW $)

THAILAND (Apr 22 / Baht)

AMERICAS

CANADA

TORONTO (Apr 22 / Can $)
4 pm close

MONTREAL (Apr 22 / Can $)
4 pm close

MEXICO (Apr 22 / Peso)
12.30pm

AFRICA

SOUTH AFRICA (Apr 22 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY APRIL 21 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY APRIL 20 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	217.02	0.3	192.05	180.24	202.00	222.49	-0.2	3.50	216.46	191.20	180.93	202.83	222.95	243.87	190.28	221.26
Austria (23)	230.89	2.4	204.33	191.76	214.92	214.76	1.7	1.53	225.44	199.13	188.43	211.25	211.10	230.89	179.21	182.06
Belgium (28)	335.30	1.0	296.72	278.47	312.10	305.53	0.2	2.37	331.85	293.13	277.37	310.95	304.76	335.30	234.33	238.65
Brazil (30)	265.66	0.0	235.10	220.63	247.28	558.09	0.0	1.84	265.59	234.60	221.99	248.87	558.09	322.44	184.94	236.48
Canada (120)	247.57	-0.4	219.09	205.61	230.44	256.43	-0.1	1.56	248.46	219.47	207.67	232.81	256.70	248.46	182.91	182.91
Denmark (34)	518.83	-0.1	459.14	430.89	482.93	481.88	-0.7	1.25	519.30	458.71	434.05	486.60	485.47	521.81	355.66	357.91
Finland (28)	439.33	3.2	388.79	364.87	408.93	501.08	2.5	1.80	425.55	375.90	355.69	398.76	488.64	439.33	247.33	250.57
France (79)	304.77	0.1	269.71	253.11	283.68	286.89	-0.6	2.04	304.48	268.95	254.49	285.31	288.55	305.13	209.81	211.37
Germany (58)	290.40	-0.2	256.99	241.18	270.31	270.31	-0.8	1.22	290.93	256.99	243.17	272.62	272.62	290.93	196.36	199.06
Hong Kong, China (66)	332.83	-1.2	294.54	276.42	309.80	331.14	-1.2	4.77	336.90	297.59	281.60	315.69	335.15	580.03	262.93	455.48
Indonesia (27)	58.10	0.1	51.41	48.25	54.08	281.56	-2.4	2.39	58.03	51.26	48.50	54.38	288.36	254.90	27.67	229.29
Ireland (18)	560.44	1.6	495.96	465.44	521.66	560.99	1.0	1.73	551.63	487.27	461.08	516.90	555.68	560.44	326.78	334.15
Italy (54)	174.62	1.0	154.53	145.02	162.54	230.98	0.4	1.09	172.88	152.71	144.50	162.00	230.07	177.15	85.70	88.65
Japan (480)	96.67	1.3	85.55	80.29	89.98	80.29	0.6	0.99	95.44	84.30	79.77	89.43	79.77	141.12	88.52	114.77
Malaysia (107)	185.39	-0.6	164.06	153.96	172.56	267.03	-1.8	2.58	186.50	164.74	155.89	174.76	271.87	555.79	113.56	566.79
Mexico (23)	1733.73	0.7	1534.27	1439.86	1613.76	16015.70	0.3	1.44	1722.60	1521.52	1439.74	1614.06	15963.74	1901.98	1335.40	1355.61
Netherlands (19)	511.15	1.0	452.34	424.51	475.78	470.39	0.4	1.96	505.90	446.87	422.85	474.05	466.61	511.15	344.68	347.43
New Zealand (14)	75.55	0.2	66.85	62.74	70.32	71.67	-0.8	4.56	75.41	66.62	63.03	70.67	72.23	96.47	71.49	85.11
Norway (38)	347.16	0.6	307.22	288.31	323.14	350.32	0.1	1.78	345.15	304.88	288.49	323.42	350.11	374.84	281.82	299.53
Philippines (22)	98.24	0.0	86.94	81.59	91.44	186.29	-0.3	1.10	98.27	86.81	82.14	92.08	186.84	179.40	57.54	179.40
Singapore (42)	209.94	-0.4	185.78	174.35	195.41	153.87	-1.0	1.96	210.80	186.20	176.19	197.53	155.46	401.75	144.01	381.02
South Africa (43)	341.14	-1.5	301.90	283.32	317.54	376.44	-1.5	2.36	346.20	305.81	289.37	324.41	382.13	365.52	227.66	358.36
Spain (31)	394.10	0.2	348.76	327.30	366.83	454.09	-0.5	1.69	393.15	347.28	328.61	368.40	456.13	395.60	223.20	223.20
Sweden (49)	609.93	1.5	539.76	506.55	567.72	692.87	0.8	1.89	600.98	530.86	502.32	563.14	687.48	610.82	405.00	419.63
Switzerland (30)	394.04	-1.1	348.70	327.25	366.77	363.31	-1.6	1.07	398.54	352.04	333.11	373.45	369.23	406.53	263.17	264.60
Thailand (39)	27.12	-0.6	24.00	22.52	25.24	41.15	-1.0	7.30	27.28	24.10	22.80	25.56	41.56	81.98	13.10	81.95
United Kingdom (209)	390.89	-0.1	345.92	324.63	363.84	345.92	0.1	2.83	391.37	345.70	327.12	366.73	345.70	401.84	281.91	281.91
USA (637)	460.67	0.2	407.67	382.59	428.79	460.67	0.2	1.39	459.70	406.06	384.24	430.76	459.70	460.67	307.96	307.96
Americas (816)	417.71	0.2	369.65	346.91	388.80	352.78	0.2	1.40	416.93	368.28	348.48	390.68	352.09	417.71	281.84	281.84
Europe (694)	360.16	0.2	318.73	299.11	335.24	338.73	-0.2	1.99	359.59	317.63	300.56	336.95	339.40	363.50	243.43	244.60
Nordic (149)	533.60	1.5	472.21	443.16	496.68	534.86	0.8	1.65	525.87	464.52	439.55	492.77	530.67	533.60	355.77	364.12
Pacific Basin (870)	107.30	0.9	94.96	89.11	99.88	89.84	0.3	1.65	106.37	93.96	88.91	99.67	89.58	158.99	95.32	133.76
Euro-Pacific (1564)	212.69	0.4	188.22	176.64	197.97	183.54	-0.1	1.89	211.90	187.18	177.12	198.56	183.64	216.04	172.09	179.97
North America (757)	447.11	0.2	395.67	371.32	416.17	446.94	0.2	1.40	446.28	394.21	373.02	418.18	446.06	447.11	300.29	300.29
Europe Ex. UK (485)	333.37	0.3	295.01	276.86	310.30	325.01	-0.3	1.66	332.35	293.57	277.79	311.42	326.09	333.98	218.84	219.17
Pacific Ex. Japan (390)	202.16	-0.5	178.91	167.90	188.16	202.34	-0.9	3.83	203.10	179.40	169.76	190.31	204.09	318.98	161.31	293.73
World Ex. US (1786)	217.10	0.3	192.13	180.30	202.08	191.44	-0.1	1.87	216.44	191.18	180.91	202.81	191.57	220.18	175.30	183.14
World Ex. UK (2214)	286.57	0.3	253.60	237.99	266.74	261.45	0.1	1.48	285.70	252.36	238.80	267.71	261.26	287.02	217.14	217.14
World Ex. Japan (1943)	394.21	0.1	348.86	327.39	366.93	396.55	0.0	1.70	393.65	347.72	329.03	368.87	396.52	394.39	277.85	277.85
The World Index (2423)	295.41	0.3	261.42	245.34	274.97	269.13	0.1	1.62	294.65	260.27	246.28	276.10	268.93	296.57	222.64	222.64

Emerging markets: IFC Investable indices

Dollar terms

4 pm close April 22

NEW YORK STOCK EXCHANGE PRICES

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
- A -										
[illegible]										
- B - through - W -										
[illegible]										
- X - Y - Z -										
114¾	89¾	Xerox	1.44	1.3	25	23020	110	107	109½	[illegible]
88	57¼	Xtra Corp	0.88	1.4	19	37	61½	61	61	[illegible]
[illegible]	24⅛	Yankee Egy	1.34	5.5	14	104	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	34⅝	York Int	0.48	1.0	43	3886	[illegible]	[illegible]	[illegible]	[illegible]
15¼	[illegible]	Zapata	0.28	2.4	29	865	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	ZenithEl				2883	[illegible]	4	[illegible]	[illegible]
[illegible]	24½	Zenith Nat	1.00	3.3	19	158	[illegible]	30	[illegible]	[illegible]
[illegible]	7½	Zweig Inc x	0.73	9.8		12	7½	7½	7½	
33¼	25	Zeon	0.12	0.4	19	128	[illegible]	[illegible]	[illegible]	[illegible]
14	12	ZweigFdS x	1.32	10.0		361	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zweig Tot x	0.84	9.3		770	[illegible]	9	[illegible]	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Apr 21	Apr 20	Apr 17	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9184.94	9141.84	9167.50	9184.94 (21/4)	7580.42 (9/1)	9184.94 (21/4/98)	41.22 (8/7/32)
Home Bonds	105.13	105.11	105.40	105.48 (15/1)	104.92 (28/1)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3684.91	3680.23	3685.28	3686.82 (16/4)	3194.36 (9/1)	3686.82 (16/4/98)	13.23 (8/7/32)
Utilities	287.51	288.32	289.58	291.18 (2/4)	282.86 (9/1)	291.18 (2/4/98)	16.53 (8/7/32)

DJ Ind. Day's high 9250.20 (9245.22) Low 9051.41 (9027.25) (Theoretical)
Day's high 9193.65 (9172.73) Low 9098.25 (9091.52) (Actual)

Standard and Poors	Apr 21	Apr 20	Apr 17	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1126.67	1123.65	1122.72	1126.67 (21/4)	927.69 (9/1)	1126.67 (21/4/98)	4.40 (1/6/32)
Industrials‡	1308.84	1302.66	1299.04	1308.84 (21/4)	1077.40 (9/1)	1308.84 (21/4/98)	3.52 (30/6/32)
Financial‡	138.21	138.81	138.87	140.83 (14/4)	110.65 (9/1)	140.83 (14/4/98)	7.13 (4/8/74)
Others							
NYSE Comp.	584.80	584.01	584.11	584.80 (21/4)	487.47 (9/1)	584.80 (21/4/98)	4.84 (25/4/42)
Amex Comp	749.79	747.95	744.37	749.79 (21/4)	646.41 (12/1)	749.79 (21/4/98)	524.20 (16/7/98)
NASDAQ Cmp	1903.87	1887.14	1865.60	1903.87 (21/4)	1503.22 (9/1)	1903.87 (21/4/98)	54.87 (3/10/74)
Russell 2000	491.41	488.81	487.01	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Apr 17	Apr 3	Mar 27	Year ago
Dow Jones Ind. Div. Yield	1.53	1.56	1.59	1.82

	Apr 15	Apr 8	Apr 1	Year ago
S & P Ind. Div. yield	1.31	1.33	1.31	1.82
S & P Ind. P/E ratio	30.69	30.27	30.84	21.85

US DATA

MARKET ACTIVITY

Volume (million)	Apr 21	Apr 20	Apr 17
NYSE	675.780	587.530	672.290
Amex	34.737	24.763	26.877
NASDAQ	949.779	816.705	820.123

NYSE	Apr 21	Apr 20	Apr 17
Issues Traded	3,504	3,493	3,467
Rises	1,589	1,391	1,759
Falls	1,387	1,557	1,162
Unchanged	558	555	546
New Highs	186	173	136
New Lows	28	20	16

NYSE TRADING ACTIVITY

Volume : 675,780,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Cendnt	16,143,800	23¾	+⅛
Compaq	10,275,800	28⅝	+⅜
IBM	10,253,800	118	+6⅝
Pfizer	10,084,400	116¼	+2[illegible]
LucentTch	6,975,300	74⅝	+2[illegible]
Iomega Cp	6,034,800	6⅝	+⅞
PhMorr	5,250,100	39¾	–½
Mark IV	4,214,300	20[illegible]	–1⅞
AT&T	4,194,000	63⅝	–1[illegible]
SKBchm	4,080,800	58⅝	–4¼

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Handleman	10⅝	+1¼	+11.3
Dravo	11⅝	+1	+9.6
Sci2000	53¾	+4½	+8.9
SchwebA	15⅝	+1¼	+8.8
Downs			
Oakwood Hm	30⅝	[illegible]	–15.0
Samrad Inc	18[illegible]	–2⅛	–10.1
Mark IV	[illegible]	–1⅞	–8.2
SKBchm	58⅝	[illegible]	[illegible]

NASDAQ TRADING ACTIVITY

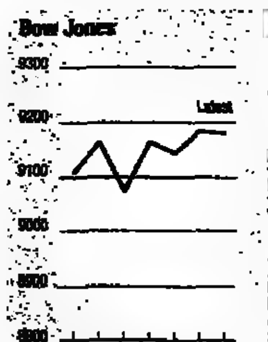
Volume :949,779,000

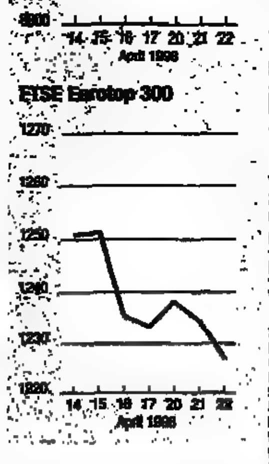
ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Intel	23,295,200	78[illegible]	+2¼
Micsft	12,984,100	94⅞	+1⅛
DellCmp	12,727,100	74⅝	+4[illegible]
ApplMat	8,450,400	38⅝	+1¾
Netscp	7,736,900	24½	–1¼
3Com	7,570,800	35¼	+⅛
AscendCom	7,090,200	43¾	+⅛
TCI GpA	7,058,200	33⅝	+1[illegible]
CiscoSys	6,787,100	73⅞	+1⅛
NewbAs	6,617,100	70⅛	+6⅝

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
DPatPh	50⅛	+7⅞	+18.3
Taboon Cp	32⅛	+4¼	+18.0
Canner	28⅝	+3⅞	+15.8
LamRsp	68⅛	+6⅞	+12.2
Downs			
CDWCmp	51¼	[illegible]	–18.1
IntgrCktSy	16¼	[illegible]	–16.0
MrwstMed	29⅛	–4⅝	–13.1
Silicaln	27	–5	–16.0





JAPAN

	Apr 22	Apr 21	Apr 20	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15761.54	15825.67	15697.10	17264.34	14694.44	38915.9	85.25

Day's high: 15832.37. Day's low: 15601.25.

TOKYO TRADING ACTIVITY

Volume : 310,000,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Np Steel Cp	15,788,000	209	–4
Nissan Mtr	14,979,000	413	+1
Fuji Bk	4,832,000	723	+3
Fujitu Cp	4,195,000	104	–2
Asahi Bk	3,621,000	489	–6
Sakura Bk	3,558,000	457	–10
Toshiba Cp	3,341,000	590	+9
Hitachi	3,207,000	958	–15
[illegible]	[illegible]	[illegible]	–6
Mitsbl Hvy	3,134,000	502	–3

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Ishihara	220	+25	+12.8
Aiba Kiko	108	+10	+10.2
Tky Tekko	[illegible]	+11	+9.1
Nippon Lace	96	+8	+9.1
Downs			
Tekai Seiko	132	–17	–11.4
Kuahima Txt	202	–23	–10.2
Oiyshi Road	255	–25	–8.9
Hokuriku Ele	365	–35	–8.8

FRANCE

	Apr 22	Apr 21	Apr 20	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3839.07	3880.40	3895.69	3898.75	2862.54	3898.75	984.61

Day's high: 3886.09. Day's low: 3818.20.

PARIS TRADING ACTIVITY

Volume : 482,281,900

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Rh-Poulenc A	2,718,353	288.4	+5
[illegible]	2,017,586	19.5	+0.[illegible]
Bqe Nat Paris	1,190,298	517	
Axa-UAP	1,151,225	708	–7
Fr.Telecom	1,138,708	327.7	+0.1
Usinor	1,001,203	90.85	–2.15
Paribas A	894,361	644	–5
Moulinex	875,686	184.8	+10.9
Total B	838,003	679	–14
Alcatel Alst	599,558	1110	–5

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Rendom	0.31	+0.1	+47.6
AMF (All Cbel)	955	+165	+20.9
Alpha Mos	107.1	+12.1	+12.7
FDM Pharma	163	+18	+12.4
Downs			
Un Crd Bt Rg	10.25	–3.75	–26.8
Skodat	24	–5	–17.2
Maracaibo	105	–15	–12.5
Clayeux	57	–5	–8.1

GERMANY

	Apr 22	Apr 21	Apr 20	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5360.85	5388.94	5442.00	5442.00	4087.28	5442	931.18

Day's high: 5422.94. Day's low: 5350.88.

FRANKFURT TRADING ACTIVITY

Volume : 18,899,987

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Siemens	1,294,138	113.3	–0.15
Deut.Tlkm	1,122,644	45.25	–0.45
Commrzbnk	673,158	76.5	+1.1
Dresdner Bk	549,792	104.4	+2.75
Deut.Bank	544,437	153.05	–1.85
Hoechst	492,889	67.99	+0.29
Bayer	443,320	80	–1.8
Daimler-Benz	398,799	182.8	–0.95
BASF	370,757	79.95	–0.15
Lufthansa(Vk)	331,518	[illegible]	

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Alcatel Sl (Vz)	340	+69	+25
KSB Kl. Sk. Bk.	80	+15.8	+16.8
Holzmann(Ph)	576	+45	+8.5
[illegible]	47.5	+3	+6.7
Downs			
Wertt (Vnkln)	3610	–390	–10
Schmlr Rollsk	240	–20	–7.7
Varta	325	–27	–7.7
Fristec	51.5	–2.9	–5.3

UK

	Apr 22	Apr 21	Apr 20	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5931.1	5955.0	5954.1	6105.80	5058.80	6105.8	986.9

Day's high: 5995.8. Day's low: 5918.5.

LONDON TRADING ACTIVITY

Volume : 854,500,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Pilkington	31,298,480	123½	+6½
Smith.Bchm	28,829,030	683	–8
Colima	28,535,800	19⅝	+4⅛
Natl.Power	24,944,340	584	–16
GEC	23,181,419	478	+20
Rolls Royce	20,381,360	271	+4½
Centrica	20,255,960	106½	–1
Burm Pet.	14,782,150	21½	
Shell T&T	13,007,880	442	
Unilever	12,327,730	619½	–9

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Oliver Ash	172½	+52	+43.15
Colima	19⅝	+4⅛	+27.4
Sthr Energy	19	+3	+18.7
Quadrant Grp	355½	+6	+18.2
Downs			
Cadcentre	285	–140	–34.6
Ransom Grd	6½	–1¼	–16.1
Aspen Grp	95	–13	–12.0
Protean Int	58	–6	–9.4

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Jun	1134.80	1135.00	–0.40	1136.10	1133.20	106,752	339,866
Sep	1146.00	1147.30	–0.30	1147.30	1145.50	182	10,361

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	15800.0	15730.0	–70.0	15810.0	15580.0	20,157	190,408
Sep	15800.0	15700.0	+10.0	15700.0	15530.0	3	12,792

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Apr	3829.5	3829.0	–28.0	3832.0	3825.0	627	34,414
May	3814.5	3815.0	–28.0	3815.0	3812.5	86	2,060

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Jun	5408.0	5315.0	–72.0	5434.0	5305.0	25,239	120,725
Sep	5466.0	5382.6	–72.5	5466.0	5373.0	38	17,150

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Apr	3038.00	2969.00	–79.00	3040.50	2963.25	12,198	19,884
Jun	–	3023.50	–	–	–	–	532

SOFFEX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
May	7386.2	7255.0	–81.2	7401.0	7219.0	6,175	22,378
Jun	7281.5	7238.0	–80.0	7281.5	7219.5	29	303

WORLD MARKETS AT A GLANCE

THE NASDAQ STOCK MARKET

4 pm close April 22

THE NASDAQ STOCK MARKET

AMEX PRICES

4 pm close April 22

EASDAQ

STOCK MARKETS

Bonds and strong dollar hit investor mood

WORLD OVERVIEW

Equities remained subdued yesterday with the bond markets and the dollar continuing to cast a shadow over investor sentiment, *writes Jeffrey Brown.*

Frankfurt led the way down, ending the day with a fall of 1.1 per cent on the Xetra Dax as the D-Mark stayed under 1.80 to the dollar and long-term bond yields continued to track higher.

Tuesday's half-point cut for Italy's discount rate and yesterday's round of denials by Bundesbank officials did nothing to dispel market suspicions that the next move for German interest rates will be upwards.

This week's run of upbeat indicators – from Spanish industrial production to German money supply – have supplied further solid evidence that the pace of economic activity in Europe is quickening.

"The upward shift for bonds yields and the strength of the D-Mark are telling us that earnings expectations in Europe are now under pressure," says Ian Harnett, equity strategist at NatWest Markets.

The consensus view of earnings growth in Europe this year, including the UK, is about 14 per cent, but "this may well be shaded to about 10 per cent", says Mr Harnett.

There has been little real weight of selling over the past couple of days and equity markets remain within a whisker of record highs.

But, equally, with money managers finding it increasingly hard to pinpoint value in equities, fresh funds have not been forthcoming.

"I think there is clear scope for underperformance by some of the peripheral European markets in the short-term," says Mr Harnett.

The general feeling of unease among investors gained little comfort from yesterday's stream of high-profile earnings stories.

First-quarter disappointments from two leading Swedish cyclicals – Volvo and Scania – were flanked by a profits warning from Siemens, the blue-chip German electronics conglomerate.

At the sight of shrinking operating margins, Volvo shares yesterday crumpled more than 10 per cent in heavy trading volume.

There was some soothing balm from Dutch electronics giant Philips, which turned in first-quarter profits way above the top end of a relatively wide range of broker forecasts.

This sent Philips shares up 11 per cent in near record volume for a three-day gain of more than one-fifth.

It was awe-inspiring stuff for a stock capitalised at the equivalent of $33bn.

Dow steady as investors sift rumours

AMERICAS

US equities were mixed by early afternoon trading as investors waded through a flood of earnings reports and the latest wave of bank merger rumours, *writes John Labate in New York.*

The Dow Jones Industrial Average was down 4.74 to 9,180.20. The broader market improved, however, with the *Standard & Poor's 500* climbing 4.01 to 1,130.68. Technology shares also advanced, sending the Nasdaq composite up 7.83 to 1,911.70.

Bank stocks *took* centre stage as Bank of New York launched a merger offer for Mellon Bank. Mellon's shares surged more than 11 per cent or 7\frac{11}{16}$ to 77\frac{1}{2}$.

Other stocks gained ground as well, with PNC Bank up $2¾ to $62¾ and BankBoston gaining 2\frac{11}{16}$ to 112\frac{11}{16}$. The Philadelphia Stock Exchange's banking index rose 12.25 to 897.81.

Investors were cautious about Dow component shares. "First-quarter earnings have been really good, but there is still concern about what earnings will look like for the next three quarters, and the market looks pricey to many portfolio managers," said Hugh Johnson, chief investment officer at First Albany.

Among Dow components, International Paper came off 1\frac{5}{16}$ to $54 and 3M down 1\frac{11}{16}$ to 95\frac{1}{16}$.

Prices were mixed among those companies that reported earnings results. *Steel producer Nucor fell* 1\frac{11}{16}$ to 56\frac{1}{4}$. Airline stocks also weakened. UAL lost 1\frac{1}{16}$ to 90\frac{1}{16}$ in spite of better-than-expected figures. TWA slid $$\frac{1}{16}$ *to* 10\frac{7}{16}$ after reporting a first-quarter loss.

Lucent Technologies rose $2¾ to $77 after the company topped earnings expectations. *Armco also gained* $¾ to 6\frac{11}{16}$ after its results announcement.

In the technology sector, semiconductor shares rallied. *Intel* gained 4\frac{1}{16}$ or more than 5 per cent to $83¾ as Morgan Stanley reiterated a strong buy rating. Computer makers also moved higher with *Dell Computer* adding $3 to $77¾ and Compaq gaining $1¼ to $28.

The Russell 2000 index eased by less than a point to 490.65.

TORONTO moved ahead as a rise in gold prices prompted a rally in gold and precious minerals shares. The TSE 300 composite rose 41.98 to 7,807.5.

The gold and precious minerals sub-index rose 3.3 per cent with Barrick Gold, a leading gold producer which released firm first-quarter earnings on Tuesday, adding C$1 to C$33.4.

A recovery in financial services stocks, which had been sliding for the past few days, also helped. The sector rose 0.4 per cent.

Reform fears hit Bovespa

SAO PAULO fell steeply in early trading amid concern for the government's reform programme. Telebrás fell 2.4 per cent to R$40.80 and Electrobrás *tumbled 3.5* per cent to R$49.10.

The Bovespa index was off 262 or 2.2 per cent at 11,766 at midsession. Investor concerns for the reform programme were sparked by the death of a leading reformist.

MEXICO CITY ran into modest profit-taking and at midsession the IPC index was off 25.23 at 5,160.29. Brokers said the recent rally for *shares sparked the selling,* although volumes were described as light.

CARACAS lost ground in morning trading. The IBC index was 71.76 or 1 per cent lower at 6,920/04 at midsession.

Golds back above 1,000

SOUTH AFRICA

Shares in Johannesburg clawed back early losses to close with the all share index up 28.0 at 8,310.1.

Golds were the main feature of the session, breaking back above 1,000 for the first time since last October thanks to a strong bullion price.

The golds index ended 61 higher at 1,009.3. Anglogold rose R18.20 to R284 ahead of today's quarterly earnings report. *Gold Fields added R1* at R34.50.

Philips bucks downward trend

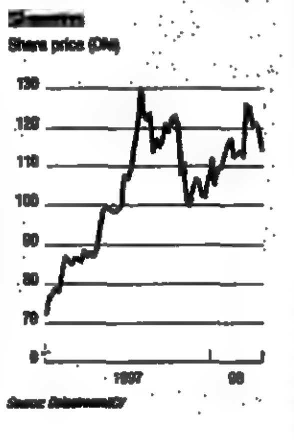
EUROPE

Shares in Philips dominated trading in **AMSTERDAM**, surging 11 per cent and allowing the overall market to close little changed in spite of another weak day elsewhere in Europe.

The electronics giant's first-quarter results came in *well ahead of expectations,* sparking a round of broker upgrades and sending buyers scrambling for stock.

The shares hit a peak of Fl 187.40 *before* ending Fl 18.30 higher at Fl 185.30 for a three-day advance of 21 per cent. At the close of trading, more than 13.5m shares had changed hands.

First-quarter earnings were a sixth ahead of the top end of broker estimates and Philips iced the cake by confidently *forecasting* an end to losses at its PCC consumer communications arm.



Goldman Sachs raised its target price on the shares to Fl 210 from Fl 175.

In contrast, disappointing results from software group Baan sent the shares down *Fl 11.10 to Fl 96.70. Goldman* Sachs lowered its rating to "market perform" from "outperform".

The AEX index ended 1.36 *points off at 1,186.61.*

ZURICH slid almost 1 per cent as losses in a number of market heavyweights kept prices under pressure. The *SMI index closed 60.2* lower at 7,308.9.

Novartis added to Tuesday's 3.7 per cent fall with another of SFr51 to SFr2,430 in further response to its disappointing first-quarter sales figures. CS First Boston said it expected Novartis' weak sales growth to be limited to the first quarter and it reiterated its buy recommendation. Roche certificates lost SFr195 to SFr15,155.

Nestlé came under renewed pressure *with a fall* of SFr47 to SFr2,715 in response to rising coffee prices in London. ABB eased SFr5 to SFr2,316, ahead of *first-quarter results today.*

Cement group Holderbank continued its upward path. The shares added SFr26 to SFr1,660, supported by a presentation to London analysts and Tuesday's annual results news conference.

Adecco climbed SFr27 to SFr650, extending its advance over a week to more than 14 per cent, amid rumours the employment group *planned* to merge with Kelly of the US.

Bank Sal Oppenheim in Zurich downgraded the stock to market performer, noting that the share was now trading at a 30 per cent premium to Manpower of the US.

A SFr235 jump in Bank Julius Baer to SFr4,325 was attributed to consistent rumours of consolidation in the private banking sector.

FRANKFURT was under pressure after Siemens issued a profits warning and the Xetra Dax index finished 61.52 lower at 5,312.28.

Siemens tumbled DM5.50 to DM114 after the electronics group cautioned that 1997-98 earnings would fall short of its own forecasts. Investment bank Merck Fink *cut its earnings estimates* after Siemens said profits could be hit by provisions for south-east Asian risks, problems with a recently *introduced gas turbine* product line and eroding prices for memory chips.

ABN Amro added to the gloom, warning that Siemens' chip business might be facing heavy losses.

Telecoms newcomer Drillisch closed its first day's trade on the Neuer Markt at DM433, compared with the subscription price of DM86. The company is a rival to Mobilcom, which rallied DM35 to DM1,400, about 15 times the price when they were issued a year ago.

Dresdner Bank advanced DM6.40 to DM108.75 on continuing speculation that the group was a potential mega-merger candidate.

PARIS gave up early gains but finished off lows, continuing its consolidation. *The CAC 40 index finished* 25.33 lower at 3,835.07

L'Oreal lost FFr68 to FFr2,829 on the suggestion that it might suffer from renegotiation by LVMH's DFS subsidiary for delays in payments.

Euro Disney was marked 2 per cent lower as the company reported a smaller loss in its traditionally weak first half, compared with the same period of 1996-97. The shares lost 20 centimes to FFr9.80.

Nickel miner Eramet added to recent gains, rising FFr8.40 to FFr292.90 in response to the French government's political settlement in New-Caledonia.

MILAN closed weaker in spite of an opening rally inspired by the Bank of Italy's rate cut on Tuesday.

Retail investors rushed to buy shares in early trading, but the Mibtel index finally closed a volatile day losing 138 or 0.6 per cent to 25,163.

Banks, which were traded higher last week on hopes of mergers, lost ground. Banca Di Roma lost L107 to L3,445 while Credito Italiano lost L241 to L10,033.

Fiat declined L244 to L8,064, while Eni, the oil and gas group, rose L180 to L12,413 following the announcement of a higher-than-expected dividend.

MADRID closed lower, dragged down by weak futures. The general index closed down 12.15 or 1.3 per cent at 893.96 as investors took profits on shares that had recently gained. Telefónica lost Pta70 to Pta6,520, while Endesa declined Pta65 to Pta3,955. Tabacalera lost Pta75 to Pta3,695.

STOCKHOLM was *depressed by a spate of* weaker-than-expected earnings announcements. The general index fell 76.27 or 2.1 per cent to 3,573.57 on disappointing first-quarter results from truckmaker Scania, Volvo and Autoliv, the car safety group.

Scania fell SKr9.5 to SKr181.5, Volvo lost SKr29.5 to SKr240 and Autoliv declined SKr14 to SKr245. Ericsson was down SKr12 to SKr421.

FTSE Actuaries Share Indices — European series

April 22

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1227.10	-0.58	-7.14	1.91	0.26	1343.32
FTSE Eurotop 100	2804.96	-0.60	-17.05	-	-	-
FTSE Eurotop 300 Regions						
300 UK	1171.70	-0.34	-4.00	[illegible]	12.94	1304.91
300 Ex-UK	1259.32	-0.70	-8.98	1.46	2.49	1365.17
300 Eurobloc	1248.42	-0.62	-7.75	1.61	2.20	1235.88
300 Ex-Eurobloc	1214.79	-0.55	-6.71	2.14	9.15	1237.10
FTSE Eurotop 300 Economic Groups						
Resources	1028.93	+0.24	+2.46	2.65	6.88	1051.88
General Industrials	1162.37	-1.02	-11.92	1.82	6.21	1171.75
Consumer Goods	1126.14	-1.34	-15.30	1.84	5.79	1144.02
Services	1166.65	-0.65	-7.65	1.58	5.34	1181.38
Utilities	1332.35	-0.58	-7.49	3.28	1.84	1320.51
Financials	1416.34	-0.06	-0.83	1.75	8.10	1433.46

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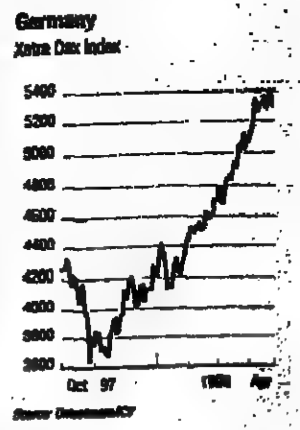
Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono, Paul Gregan and Bob Sherwood

MARKET FOCUS

Clouds loom but Dax still shines

Investors in German shares have never known anything like it. As the market has reached successive highs, those who preached restraint and warned of inevitable corrections have been proven embarrassingly wrong.



Now, analysts seem content to have it both ways: to point out that the German market is overvalued after its latest dizzy surge and to indicate that share prices could continue to rise.

But there are clouds on the horizon, such as the possible impact of the Asian financial crisis on profits and a looming election that could see a change of government. The planned introduction next year of Europe's single currency, while generally seen as positive for equities, could also disrupt sentiment as economies and markets adjust to the euro.

So far this year, though, the market has ignored hints of trouble, with the Xetra Dax index rising 28 per cent to about 5,400. Last year, it went up 47 per cent. The main impulses have been the strong dollar, which helps exports, restructuring in the upper echelons of German industry and low interest rates and bond yields, which make non-equity investments less attractive.

At the market's current *heady levels, forecasters* look forward to the Dax reaching 6,000 – though not yet. The targets they originally put forward for this year have *mostly* been reached.

Undoubtedly, the big Deutsche Telekom issue at the end of 1996 gave a strong boost to Germany's infant equity culture. The growing realisation that the state pension system will not meet future retirement needs has also caused more people to shift money away from secure low-yielding fixed-interest investments.

Lack of progress in achieving pension and other reforms is likely to colour the attitudes *of voters in the* general election on September 27. If, as looks increasingly likely, Chancellor Helmut Kohl's centre-right coalition is ousted, the halting progress of economic reform could slow even further.

This Sunday's election in the east German state of Saxony-Anhalt, which is afflicted by high unemployment, could be a pointer to September's result. "The general election will be won or lost in east Germany," says Gerhard Grebe, chief economist and equity strategist at Bank Julius Baer (Deutschland).

He warns that if the Social Democratic Party, with the popular Gerhard Schröder as its candidate, moves from opposition into government this autumn, there is likely to be a shift in emphasis from reform to economic pump-priming to help jobs.

That could lead to a 10 per cent correction in share prices, Mr Grebe reckons. He also expects the dollar to ease and interest rates to rise as European economies grow stronger, further dampening the market.

However, he is optimistic over the longer term, expecting the Dax to reach 6,000 in the second half of 1999 and continue climbing after that.

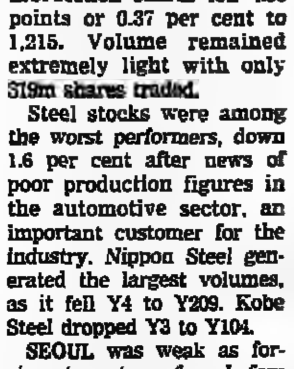
Andrew Fisher

Taipei jump ends four-day fall

ASIA PACIFIC

TAIPEI ended a four-day losing streak with a rise of 196.31 or 2.3 per cent to 8,636.51 on the composite index. Brokers said the 367-point setback over the previous four sessions had sparked bargain hunting.

The electronics sector rose 3.6 per cent. ASE and Hon *Hai advanced by the daily* 7 per cent limit, adding T$7 to T$111 and T$13 to T$208 respectively.



TOKYO was listless as investors paused for the details of the latest government stimulus package, *writes Paul Abrahams in Tokyo.*

The Nikkei 225 index fell 64.13 or 0.4 per cent to 15,761.54, in spite of Fuji TV reporting the package would be *larger than thought.*

The markets barely reacted to a speech by Eisuke Sakakibara, vice finance minister, saying it was time to "buy Japan". The yen strengthened marginally against the dollar on his pronouncements, and the equity market recovered some lost ground. The 225 index traded as low as 15,601, and as high as 15,832.

The Topix index of all first-section shares fell 4.56 points or 0.37 per cent to 1,215. Volume remained extremely light with only 319m shares traded.

Steel stocks were among the worst *performers,* down 1.6 per cent after news of poor production figures in the automotive sector, an important customer for the industry. *Nippon Steel* generated the largest volumes, as it fell Y4 to Y209. Kobe Steel dropped Y3 to Y104.

SEOUL was weak as foreign investors found few incentives to commit fresh funds, and the composite index lost 7.40 or 1.7 per cent to 431.81.

The market was *also* said to be depressed by the prospect of labour strife after the head of the militant Korean Confederation of Trade Unions *said his group would* not participate in talks with government and business.

HONG KONG was flat in cautious trade after a *government land auction* produced prices in line with expectations and failed to offer the market much guidance. The Hang Seng index added 9.21 to 10,977.47 in quiet trade of HK$4.6bn.

Property counters lost out, as enthusiasm for the sector was dampened by a lack of interest from the main developers in the auction.

Cheung Kong fell 75 cents to HK$53 while Sun Hung Kai Properties was 70 cents lower at at HK$49.30.

China Resources slipped 5 cents to HK$14.95 ahead of its results. After the market closed, the company reported 1997 net profit of HK$1.56bn, against HK$597m in 1996.

SYDNEY moved lower with the All Ordinaries index dipping 9.6 to 2,856.8. Golds were firmer, notably Newcrest which gained 7 cents to A$2.76. But resources generally were mixed. BHP shed 6 cents to A$15.23. Media giant News Corp was hit by management uncertainties, *giving up 27 cents to A$10.83.*

SINGAPORE managed to find some support in late buying, but nevertheless closed down more than 1 per cent. *Overseas funds* were locking in profits and the Straits Times Industrials index lost 16.82 to 1,475.52.

Blue chips were lower with Singapore Telecom down 6 cents to S$2.51. Singapore Press Holdings lost 60 cents to S$16.90.

SHANGHAI hard currency B shares declined on disappointing earnings announcements. The B index fell 0.427 to 52.219.

Sentiment was depressed as heavily weighted Inner Mongolia Erdos Cashmere Products said its 1997 net profits had fallen more than *40* per cent. The shares declined $0.034 to $0.316.

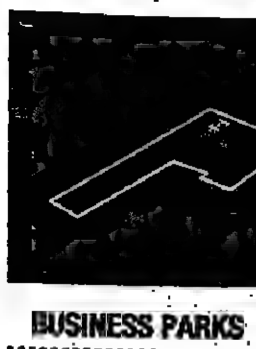
In contrast, Shanghai's domestic A shares rallied on reports that China's securities regulator would issue at least five mutual funds to support the market.

هكذا من الاصل

KENT

Public and private sectors pull together

Pages 3-5



BUSINESS PARKS

Tougher restrictions may boost business

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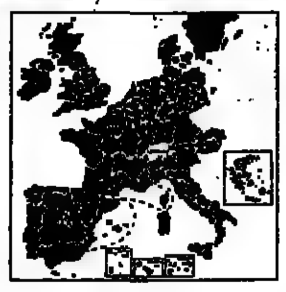
REPORTING BRITAIN



STATISTICS

Europe's regional prosperity league table

Page 6

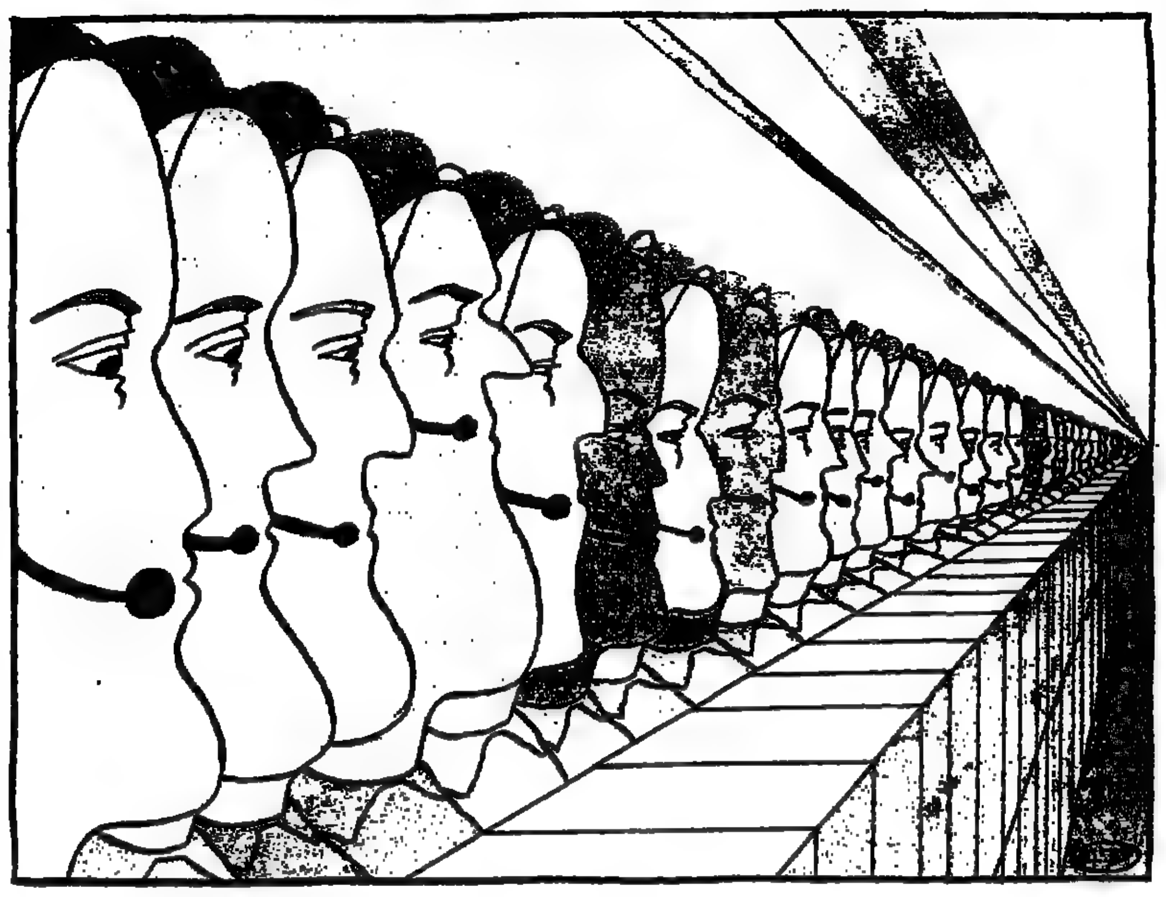
CALL CENTRES

Regional economies given jobs boost

Page 8-10

Business conducted by phone continues to grow strongly, with regions competing for new facilities. But, says **Brian Groom,** there are grounds for caution as well as euphoria

Call centres become a jobs phenomenon



Marketing people have devised an ugly word – "telephiles". This denotes not a perversion but people who enjoy conducting business by telephone and prefer it for buying goods. According to research by the Henley Centre for Forecasting, this includes half the UK population.

To feed the telephiles' appetites comes a rapid growth in call centres – where staff wearing headphones sit at desks, with a computer in front of them, selling anything from kitchenware to life insurance.

New ones are arriving every month. Prudential, the insurance group, recently announced plans for a 1,500-job centre at Derby, while Barclaycall is to create 2,000 jobs in Sunderland, Tyne and Wear.

Big numbers, indeed. Call centres are the most remarkable employment phenomenon of the 1990s, one which has investment agencies fighting over every new centre looking for a home. Potentially they bring great economic benefit to the chosen locations.

There are grounds for caution, however, about the scale of their overall impact. There are also issues to be resolved if they are to be greeted with equal joy by employers, staff and customers.

Wilder forecasts that 1m people will be employed in UK call centres by 2000 have been scaled down. Most estimates put current numbers somewhere between 150,000 and 320,000.

Datamonitor, the consultancy, whose calculations are at the higher end, expects 2 per cent of the UK working population, or about 480,000 people, to be employed in call centres by the millennium. Across Europe, the total could be more than 1.2m.

That is still an annual growth rate of nearly 20 per cent in Britain, and even higher in continental Europe.

Technology makes it possible. Automated call distribution (ACD) switching allows incoming calls to be sent out in orderly queues to waiting operators, and if necessary transferred to less busy centres in other cities or continents.

Computer telephony integration (CTI) allows customers' records to be called up on screen as their calls are answered.

How many of these jobs, though, are new to the economy? Incomes Data Services, the pay research group, caused consternation in the industry by claiming that jobs were often being lost elsewhere as fast as they were being created in call centres, since two-thirds of call centres replaced activities previously carried out in separate branches.

The scale of this effect is hotly debated. The Call Centre Association replies that while some of the early centres might have replaced branch jobs, companies are increasingly selling new services by telephone.

There is even greater controversy over the quality of the jobs. Call centres are criticised for bringing the problems of industrial mass production into the white-collar field. Calls can be monitored by managers for quality and length; sometimes they have to be answered in rapid succession by repeating a monotonous, compulsory formula.

Professor David Metcalf, of the London School of Economics, recently warned of the "Orwellian potential" of such work. There was an eerie parallel, he said, with Jeremy Bentham's 19th century "perfect prison", the Panopticon, in which all prisoners were visible from a control centre.

Employers deny they run sweatshops. Midland Bank's First Direct, for instance, has an operational floor in Leeds the size of Wembley football pitch, but prides itself on being a good employer, with no executive offices, closed doors, hierarchies or pecking orders.

In practice, employment conditions vary. There is a great difference between, say, Virgin Direct in Norwich, where graduates give complex financial advice, and other outfits which cold-call people to sell windows or double glazing, or just take orders.

Motivation and training of staff has, nonetheless, become a big issue within the industry. While some companies have labour turnover rates as low as 4 per cent a year, in others it is above 30 per cent.

Some companies are starting to pay more attention to the environment in which staff work. Freemans, the home shopping group, has not only designed the telephone area at its Sheffield centre for comfort, but also provided restaurant, gym and rest facilities.

Training has become important for another reason: satisfying customers. The Henley research showed that leading banking, retail, travel and leisure companies lost 18m customers in a year through poor telephone sales and support.

Jones Lang Wootton, the international property adviser, says: "The call centre has revolutionised British business but many are still failing to get the message, either providing poor telephone service or none at all. Competitive pressures are forcing them to change."

Call centre operators have not generally been impressed by the quality of public training provision in the UK, and there is a gap for private professional training bodies specialising in call centre needs.

Some locations, such as Leeds and Teesside, are creating a labour pool by training job-seekers in telemarketing, keyboard operation and personal communications. The competitive Irish Republic has led the way with a certificate in "international teleservices", a two-year course with an overseas placement.

Whatever the quality of the jobs, almost every area of Britain is looking to call centres to provide new investment. The conventional view is that the first centres were set up near London in the 1970s and then spread outwards in search of lower costs, leading to a boom in well-marketed cities such as Glasgow and Leeds.

Recent research by Mitial, an economic development consultancy, suggests the dispersal may have been exaggerated: London and the south-east account jointly for 26 per cent of all call centre jobs. This is explained by their size, well-established business infrastructure and the need to utilise existing buildings.

The north-west, however, was the most successful single area, and when operators were asked which locations they would consider for a new centre, Scotland and north-east England came out well. Areas which did less well by either measure included the Midlands and Wales.

Companies are attracted by areas with a successful record, but can be put off if they fear a local market is becoming saturated. Glasgow is becoming a test case for this. After considerable early success, it is now working hard to avoid skills shortages, and has launched a 'Talking Jobs' initiative to raise awareness of opportunities in call centres.

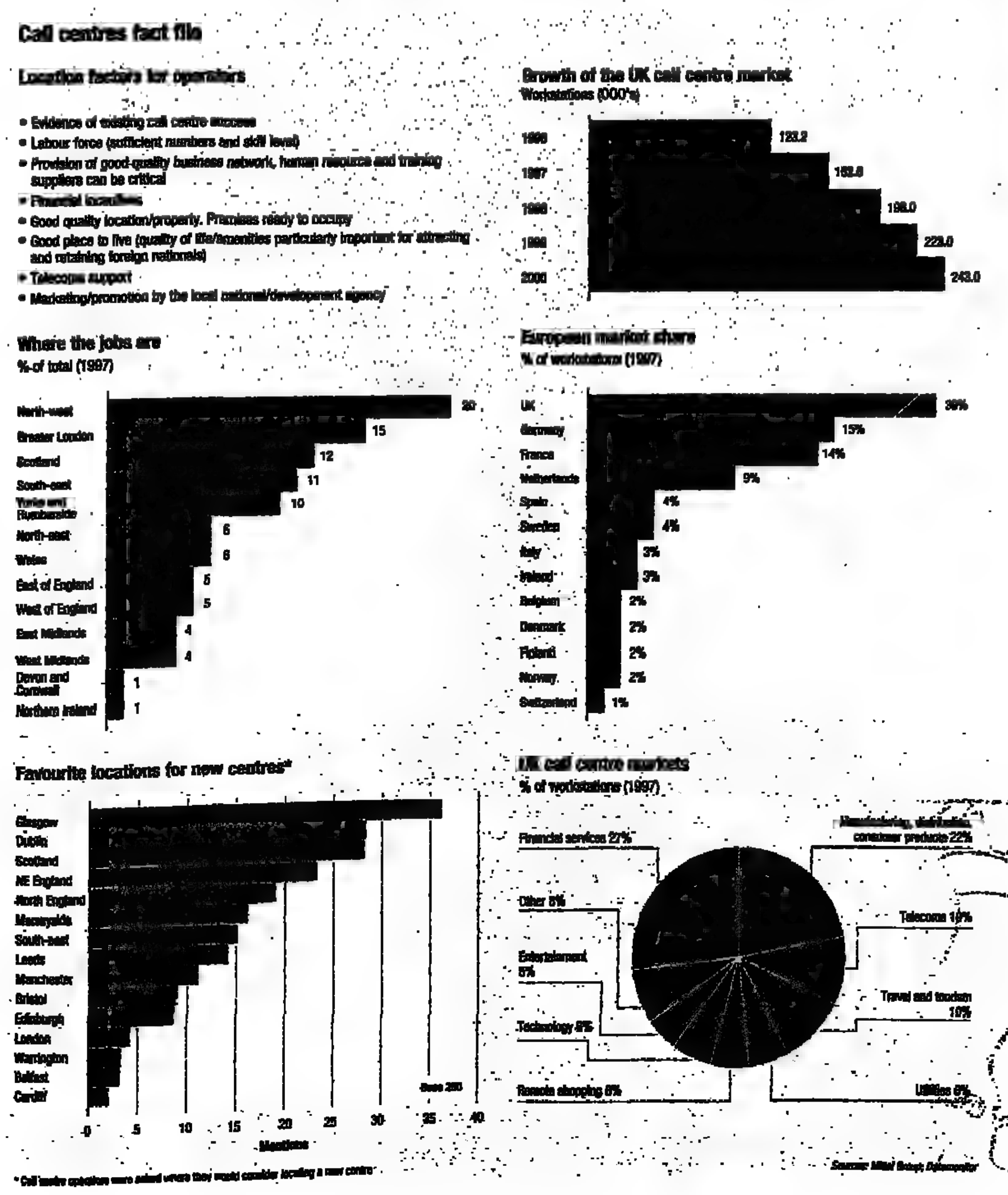
Factors named by operators in choosing locations include the quality of the labour force, the local business network, financial incentives, availability of property, and telecommunications expertise.

They rarely mention accents in speech. A clear and confident telephone manner is important, but most regional accents are acceptable as long as they are not impenetrable to outsiders.

Competition is international. The UK faces a challenge from Ireland and the Netherlands for centres serving several European countries. Speaking English gives an advantage, but multi-lingual centres are growing, too: Italians calling Delta Airlines in Rome will be connected to an Italian speaker in north London.

Falling international call rates will continue to boost the world market. According to the World Bank, the cost of a transatlantic voice call in 2000 will be 1 per cent of what it was in 1987, and by 2010 will be a negligible 3 cents an hour. Doctors in Washington DC dictate their memos to a typist in Bangalore, India; callers looking for a kitchenware catalogue in the UK may get connected to an operator in Ogden, Utah.

The call centre phenomenon demonstrates vividly that changes in technology do not always produce the predicted effect. Better telecommunications, it was said, would release thousands of people to work from home – the tele-cottage. Instead, it has brought them to work in vast international communications factories.



Opinion

INTERVIEW

Universities vital to the regions

Sir Geoffrey Holland*, *vice-chancellor of Exeter University, talks with* Alan Pike *about the role of higher education

Higher education is invariably listed among the public, private and voluntary sector interests whose input is deemed essential for successful economic development partnerships.

When university representatives arrive at partnership meetings, however, they can sometimes sense a lack of clarity – in their own minds as well as among other partners – about precisely how they should be contributing to the process.

Sir Geoffrey Holland, vice-chancellor of Exeter University and a leading force in economic development in the West Country, is in no doubt about the importance of his sector's role. "I think people are at different stages of waking up to the fact that higher education is possibly – I don't want to exaggerate – a region's most valuable resource in economic regeneration."

There are, argues Sir Geoffrey, at least three justifications for the strong claim: a knowledge-based economy's crucial reliance on highly-qualified men and women; the equally great importance of updating the skills of these highly qualified people throughout working life and offering a second educational chance to others; and higher education's capacity to provide back-up to industry through consultancy, laboratories and workshops.

"The resources available to business in universities are staggeringly important, and the fact that this is not always realised is as much higher education's responsibility as anyone else's," he says. "It has been another world. Many small and medium-sized enterprises have never thought of coming to universities, and the older universities have not reached out – they have been behind a metaphorical fence."

Exeter is, among the older universities, a leader in trying to dismantle the fence. Three years after establishing a business forum with large employers in the sub-region, three-quarters of participant companies are already engaged on projects with university departments. Around 300 students and a growing number of academic staff are working on other projects in small businesses.

Sir Geoffrey's perspective on economic development draws on experience of having being exceptionally close to national education and labour market policy. Until becoming vice-chancellor at Exeter he was one of Britain's most senior civil servants – permanent secretary at the department of employment and then at the combined department for education and employment. Earlier, as director of the former Manpower Services Commission, he was closely involved in setting up both the original Youth Training Scheme and Training and Enterprise Councils.

Sir Geoffrey thinks the government's most recent policy initiative – English regional development agencies (RDAs) – has potential to deliver results, provided reservations that he holds about structure are overcome.

Some regions, such as the seven-county south-west of which the West Country counties of Devon and Cornwall form part, are geographically large and have "never felt themselves to be one". RDAs must, he believes, work through sub-regional structures in such places.

In addition, the RDAs need clear responsibilities and lines of accountability, and real discretion over budgets. "None of this is impossible, but it has to be achieved."

An issue of immediate importance for the RDAs, says Sir Geoffrey, will be to set up effective delivery mechanisms to achieve their policy objectives. "We have got to take the word 'partnership' and the various building blocks that are around – Tecs, local education authorities, the need for local accountability, the further and higher education funding councils' regional structures – and build a delivery mechanism which is not about arguments, but about making things happen. We must accept that no one party has a monopoly of know-how, experience or resource and make regional and sub-regional mechanisms work."

The former permanent secretary draws on his Whitehall experience of education and training to envisage a novel component in the building process – combining the functions of Tecs and local education authorities.

Both bodies, he suggests, are pale shadows of what they might be. "Tecs have been nose-to-the-grindstone *in terms of provision for* unemployed people and basic skills. Local education authorities under the previous government were seriously affected by local management of schools, the Ofsted inspectorate and schools being able to opt out of local authority control."

While there were good Tecs, it could be argued that the impetus for creating them had run of steam. They could do far more to advance employment creation and assist small and medium sized businesses. Local education authorities, meanwhile, were "frustrated, browbeaten and facing budgetary and function problems". And these difficulties had been "compounded by a local government reorganisation that has left a hotchpotch pattern of unitary *authorities and weakened* counties".

It was, argues Sir Geoffrey, important to retain and build on one of the Tecs' successful achievements – engaging the active involvement of the private sector at chief executive level. And local government and education authorities had an important contribution to make to economic development.

"Some serious thought needs to be given – and this might tie into a sub-regional delivery agent for RDAs – to bringing together the functions of Tecs and local education authorities in some kind of elected body." He believes future advances in regional chambers, which the government is setting up to support the RDAs, might facilitate moves.

In spite of its attractive image, parts of the sub-region in which Sir Geoffrey's university is located have among the lowest levels of GDP per head of population in the country. "People do not realise the problems of deprivation, disadvantage and unemployment in Cornwall," he says. "If you are in that kind of position I understand that you will cling desperately to what you have. Yet the future for large parts of the south-west involves moving to a new world where knowledge industries are the basis for the economy."

When the south-west RDA was established next year it would face no less a task than changing public perceptions about the area's economic future. "The age of mining has gone. A lot of the age of fishing has gone. Tourism is worldwide competitive now with the public demanding world-class, professional standards. Agriculture will not revive as an employer in the south-west.

"The future is in the knowledge industries. If the RDA succeeds in contributing to an understanding of the need for change that this implies, it will be as valuable as any investment project."

REPORTING **BRITAIN**

Reporting Britain, the FT's regular report on developments in Britain's regions, is next scheduled to appear on May 21, and then on the third Thursday of each month with the exception of January and August.

Each issue will contain a focus on one or more regions, in which economic, industrial, political and social developments will be analysed.

New urban regeneration initiatives and the latest inward investments trends will also be featured, together with case studies and profiles of prominent schemes and individuals.

The May issue will include special focuses on the East Midlands and profiles of new life in various city centres.

Comments on this issue, or ideas for future issues, are welcome and should be sent to: The Editor, Reporting Britain, Surveys Department, Financial Times, Number One Southwark Bridge, London SE1 9HL. Fax: +44 (0)171 873 3197.

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Production editor: Ian MacDonald
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VIEWPOINT ● By Brian Groom

Building up and knocking down . . .

Donald Dewar's paternalistic image has been dented by, among other things, the Sean Connery affair and his choice of home for the Scottish parliament

It is hard to pinpoint exactly when the Scottish media started referring to Donald Dewar as "father of the nation".

The words began appearing a couple of months ago, usually within inverted commas, as a preamble to admonishing him for failing in his parental duties.

This is very Scottish: to award an accolade only when it is time to take it away. Such a Mandela-like *sobriquet, in any case,* sits ill on the Scottish Secretary's sloping shoulders.

A "non-practising Presbyterian", this most undemonstrative of politicians is not readily associated with nationalist fervour. Passion, he comments disapprovingly, "suggests recklessness and being out of control".

Until recently, control appeared to be what Mr Dewar had in abundance.

After a lifetime's dogged pursuit of Scottish devolution, he honoured the memory of his friend, the late John Smith, by delivering a three-to-one *majority for a Scottish* parliament last September following an exemplary referendum campaign.

Six months on, a surge has put the pro-independence Scottish National party on a par with Labour in opinion polls of voting intentions for the new parliament.

Questions are being asked about Mr Dewar's leadership. *Not that there* is any prospect of him being replaced – he remains Labour's main asset – but an array of spin doctors is being assembled to strengthen campaigning in the run-up to the first elections next May.

Mr Dewar's paternalistic image has been dented by, among other things, the Sean Connery affair. His decision to deny a knighthood to the pro-SNP actor appeared pettily vindictive after the two had shared a platform on the eve of the referendum.

There has been public criticism, too, of Mr Dewar's choice to build a home for the parliament on a former Edinburgh brewery at Holyrood, rather than adapt the imposing old Royal High School on Calton Hill, which has a chamber.

Mr Dewar has also been criticised for his party's uncertain handling of sleaze allegations in Glasgow and Paisley.

In Glasgow, having threatened a tough line, Labour found sketchy evidence of misdemeanours and is on the defensive after legal challenges.

None of these things, however, appears to be the main cause behind the SNP's rise. Rather it lies in the fundamental charge that Labour is not standing up for *Scotland's interests*.

A Mori poll found that Scots voters were disenchanted with Labour over core policies: National Health Service waiting lists, benefits for the disabled, taxation and the budget, and education spending.

This suggests a picture of diverging nations: in response to the same policies, Labour can be 30 points ahead of the Tories in England, yet neck and neck with the SNP in Scotland. Does it mean Scotland is heading *for* independence?

Much could happen in the year until the elections. *SNP surges have faded before.*

One thing, though, is clear: those Labour politicians who portrayed devolution as a way to kill off demands for independence must think again.

The evidence is Scots want their own parliament in order to strengthen Scotland, not strengthen the Union. Many are relaxed about whether it leads to independence.

The SNP nonetheless faces an uphill struggle. Of the 129 members planned for the parliament, 73 would be elected by first-past-the-post and 56 from party lists. While the latter would assist the SNP, its vote is too evenly spread – rather than concentrated *in winnable seats – to do* well under the former. A majority of votes does not necessarily translate into a majority of seats.

A Labour-Liberal Democrat alliance remains the most likely outcome to control the parliament. A recent poll by System Three, which gave Labour and the SNP 40 per cent of votes each, would have *given Labour and the Lib* Dems a joint majority of nine seats.

If the SNP's surge grows, however, it could emerge as the largest party, or at least the party with the most votes. Then it would seek alliance with the *Liberal Democrats*. They are likely to refuse if the price is a referendum on independence, but a strong SNP showing would increase the moral pressure for such a referendum.

Labour's instinctive reaction to the SNP's rise was its traditional one – to denounce them as snake-oil salesmen. There is no rivalry in British politics deeper than that between Labour and the SNP, both of whom hold pretensions to represent the country's soul.

They came together for the referendum campaign, along with the Lib Dems, but it was a temporary alliance. Since then, Labour has distanced itself. As Labour's attacks mounted, however, the SNP's rise continued. The strategy was not working, as Labour's strategists have belatedly come to realise.

One reason is that the enmity between the parties is not necessarily shared by the people. Some voters move relatively easily between the parties and nationalist opinion exists in a continuum, not in an abrupt division between supporters of independence and devolution.

There are Labour voters who favour independence, just as there are SNP voters who support devolution. For these people the co-operation during the referendum was popular, and Labour's subsequent behaviour self-serving.

That in turn goes some way to explaining why the spectre of independence is unlikely to frighten many Scots, 47 per cent of whom supported independence in Mori's poll. Few doubt Scotland could survive alone, if it wished. The evidence from countries such as Spain and Germany is that regional parliaments do not lead to separation, but it could happen. The same poll found that 62 per cent thought Scotland would be independent in 15 years.

There are some illogicalities. If Labour's failure to increase public spending lies behind Scotland's disenchantment, then independence would hardly be the way to correct it, because in its early years a separate *Scotland would probably* have less revenue to spend rather than more.

But those Scottish leaders who believe that what unites the nations is greater than what divides them are going to have to inspire their countrymen with the successes devolution can bring, rather than frighten them with the consequences of *failure*.

For Mr Dewar, that will mean campaigning in public rather than poring over policy detail in private.

The Scottish Secretary has many virtues, not least his suspicion of spin doctoring, but his new advisers can add something to the presentation of policy if they avoid the *excesses of Millbank's* black arts.

Mr Dewar has made a start by presenting a "new agenda". It is not all that new, and it lacks detail, but at least it concentrates on core concerns: education, unemployment, childcare *and health*. Fresh thinking on these issues, allied with sensitivity to their Scottish dimensions, may yet allow him to look forward to parenthood.

brian.groom@ft.com

Kent

OVERVIEW

Public and private sectors are pulling together

The county sees itself as the UK's gateway to Europe, but although it is no longer a rural backwater there is still some way to go, says Brian Groom

You hear a similar message all over Kent. "The county is on a wave," says Robert Ashmead, chief executive of Locate in Kent, the inward investment agency. "Its time has come as a choice location within the UK."

If determination translates into results, Kent has an attractive economic future. Public and private sectors are pulling together in unprecedented fashion to exploit the opportunities created by the Channel Tunnel and other investments in roads and ports. The county, no longer a rural backwater, sees itself as the UK's European gateway.

The county has some way to go. According to Kent Prospects, the strategy document that defined its ambitions 18 months ago, it has the second-lowest gross domestic product per head of the eight south-east counties.

It has a relatively high concentration of jobs in declining manufacturing sectors and a smaller *percentage in growing* service sectors than the rest of the south-east.

Prosperity is poorly distributed. Royal Tunbridge Wells, in the west, had only 2.2 per cent registered unemployed in February, compared with 9.7 per cent in Thanet in the east. Kent's 4.9 per cent jobless rate, though falling, was above the south-east average of 3.2 per cent.

Kent Prospects set tough targets: to raise GDP growth to an annual 3.3 per cent in the years running up to 2006, 50 per cent above the baseline forecast; to increase manufacturing output from 17.8 per cent to 21.3 per cent of GDP; and to raise total employment by 55,000 to 673,600.

Last year Kent achieved 3.1 per cent GDP growth – its fastest this decade, but slightly below the rest of the south-east and the UK as a whole.

Manufacturing exports were held back by sterling's rise and less rapid recovery than expected in European markets. GDP growth is forecast to slow to 2.5 per cent by the end of this year.

Officials say they are still putting in place the building blocks for future advance, and that an average performance will simply not be good enough.

"We have got to get Kent *moving beyond that or it* will not break through," says Mike Evans, the county's economic development officer.

The creation of Locate in Kent just over a year ago is one of those building blocks. Backed by Kent County Council, Kent Training and Enterprise Council and Kent Developers Group, representing leading property developers, it claims to have created 2,118 jobs in its first year, beating its original target of 1,500.

Another is the planned rationalisation of six business support bodies – Kent Tec, Business Link Kent, Kent Chamber of Commerce, Kent Technology Transfer Centre, Kent Education Business Partnership, Kent Enterprise Agencies – into a single point of contact, the New Kent Chamber.

A third building block is a "concordat" on spheres of influence between the Tec and the county council.

The county they are trying to market is a complex one. In the post-industrial north, Kent Thames-side, the area between Dartford and Gravesend, is the UK's largest regeneration project.

Built around Bluewater, the out-of-town shopping centre due to open next March, and the international railway station planned for Ebbsfleet, the development could create 50,000 jobs and 30,000 homes over the next 20 years.

"What we are really producing is a mini-city," says John McCready, chief executive of Whitecliff, the joint venture between the UK's Blue Circle and Australia's Lend Lease that is the main developer of the area, using former cement works and chalk quarries. He adds, with a touch of anti-climax: "It will be the Reading of the east."

Kent politicians have been in the forefront of those pushing for the Channel Tunnel rail link to be built in full, to the original timetable, by 2003.

A large part of the redevelopment will happen anyway – Bluewater is already 90 per cent let, the nearby Crossways business park is filling rapidly, and the demand for housing is evident. The opportunity that will go begging if, as seems likely, there is a delay, is to create a business district around Ebbsfleet station to attract high-technology companies that might otherwise locate in the Thames Valley.

Western Kent, around Tunbridge Wells and Sevenoaks, is the affluent part, with a strong professional services sector and heavy commuting to London.

According to Kent county council and Cluttons Daniel Smith, the property group, demand for office and distribution space in west Kent is outstripping current and future supply by 4 to 1, creating an acute accommodation shortage.

It is different in eastern Kent and in coastal areas affected by the departure of holidaymakers for foreign climes, many of which have assisted area status for investment grants.

Thanet has full development area status, as well as Objective 2 status for European Union aid, and is working to improve its infrastructure through projects such as upgrading the Thanet Way between Ramsgate and the M2 to dual carriageway.

Efforts are also being made to revive the former east Kent coalfield, where the last pit – Betteshanger – closed in 1989. A £1.1m investment has created the Aylesham Centre, delivering training, community facilities, creche and small workshops, though Mr Evans admits that jobs are coming "not speedily".

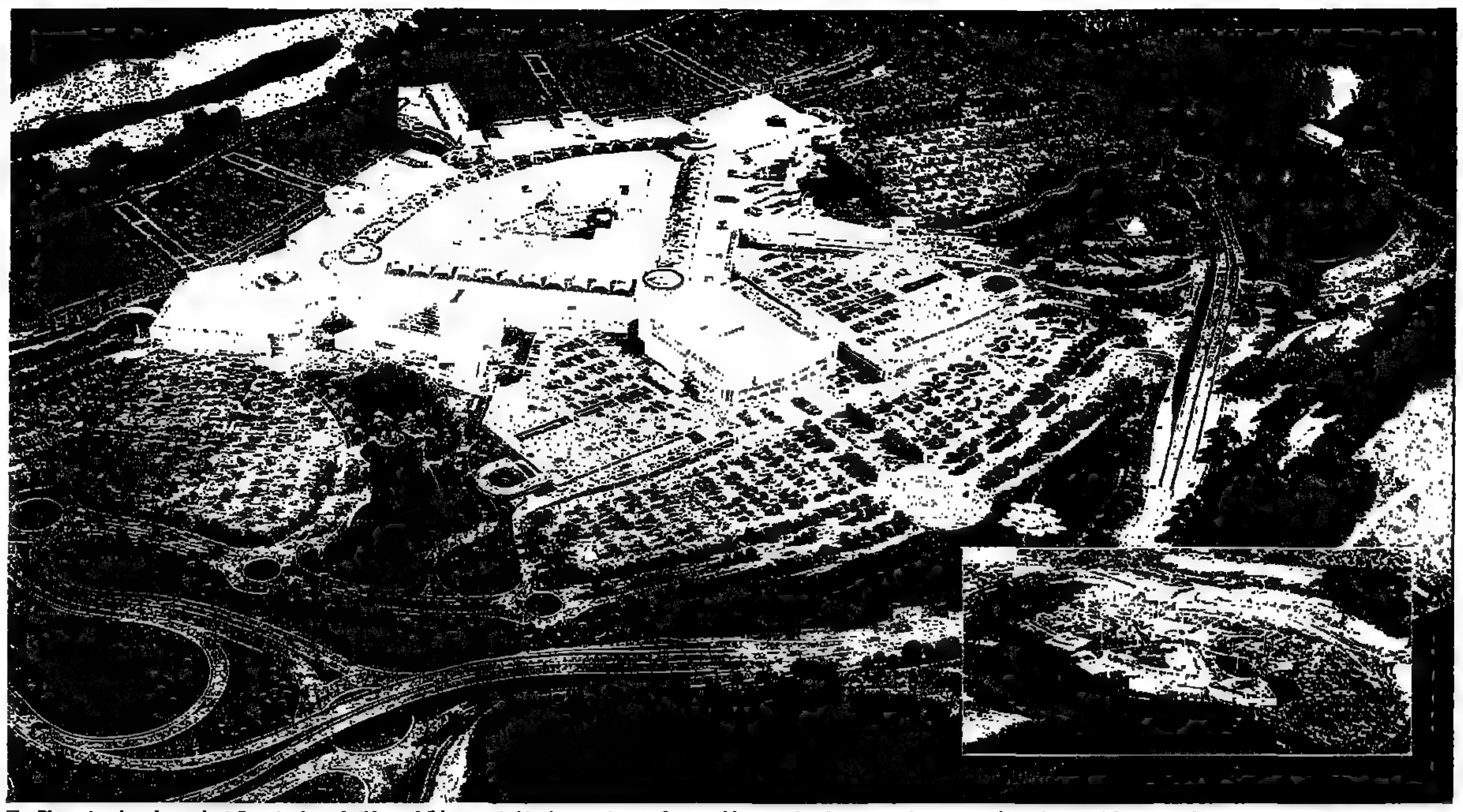
Kent has not wholly been the "Garden of England" for many years. Agriculture accounts for only 2.5 per cent of the labour force, and it is one of the few counties which expects easily to exceed deputy prime minister John Prescott's target of building 60 per cent of new homes on brownfield land.

It has many attractive areas, however, and the environment will be a crucial issue in the coming years. "The benefits of being the gateway to Europe are enormous but we must defend our environment," says Sandy Bruce-Lockhart, leader of Kent county council.

Once seen as a buffer against invasion, Kent is now more integrated into Europe than any other county. It forms part of the Transmanche region with France's Nord-Pas-de-Calais and Belgium's Brussels, Flanders and Wallonia, co-operating on investment, tourism and rural development, bringing £200m to Kent over the last seven years for projects under the EU's Interreg (inter-regional) programme.

Now it is asked by the British government to look in another direction: to south-east England. The recent creation of South-East Regional Investment is welcomed as a source of inward investment inquiries, but there is greater uncertainty, about how the planned regional development agency will affect Kent, and it is hard to see the county voting for a future south-east regional assembly.

Roger Vickerman, professor of transport and regional economics at the University of Kent, points out, however, that Kent economy is still moving in line with UK trends. It has not decoupled and joined the continental mainland yet.



The Bluewater shopping and retail centre (seen in this model) is expected to draw customers from a wide area when it opens early next year. Inset: how work is progressing

INWARD INVESTMENT

Making up for lost time

Money from US companies form the bedrock of an economy based on small businesses, writes Brian Groom

Kent has not always been aggressive in selling itself to potential investors; now it is trying to make up for lost time. The creation, just over a year ago, of Locate in Kent has brought some coherence to a hitherto fragmented inward investment effort.

In its first year, the inward investment agency says it has created 2,118 jobs, compared with an original target of 1,500. Its aim for 1998-1999 is 2,500. Call centres, financial services and automotive components are the most promising sectors.

Kent receives 80 per cent of its overseas investment from the US, a large part from western Europe, and little from eastern Asia – leaving it less exposed than some parts of Britain to the problems of South Korea's *chaebol*. Its economy is overwhelmingly based on small businesses: those employing fewer than 25 people account for 93 per cent of its 40,000 companies.

Relocations from London are another source of investment. "We are close to the capital, and within the south-east we have the most space, the most benign planning regime and a skilled workforce. Then there is Kent's position between London, Paris and Brussels," says Robert Ashmead, the agency's chief executive.

"The county has a range of business parks, including Kings Hill near Maidstone (647 acres), Chatham Maritime (350 acres), Crossways near Dartford (315 acres) and Orbital and Waterbrook near Ashford (300 acres). For all this space there has been a shortage of speculative development. That is changing – 5,000 sq m are planned in 1998-1999 – but it still gets snapped up quickly. A shortage of large units, particularly in the distribution market, is likely to continue.

Kent Prospects, the county's strategy document drawn up 18 months ago, identified 12 key sectors: business services (13.6 per cent of GDP), transport and distribution (13.1), construction (8.9), retail (8.2), health and social care (7.1), paper and printing (4.1), high-technology engineering (3.1), land-based industries (2.5), chemicals and pharmaceuticals (1.9), tourism (1.7), communications (1.4) and food processing (1.1).

Kent received a boost last December when Pfizer, the US pharmaceuticals company and the county's largest industrial employer, announced plans for a £109m research facility at its Sandwich site, creating 1,000 jobs.

Ken Moran, the company's UK chairman and managing director, concedes that Pfizer's south-east Kent location is "serendipity" – it moved there from London in the early 1950s – and that its expansion will impose strains on the local infrastructure. Most of the 650 new research and support staff will be recruited from other parts of the UK and continental Europe, and they will all be looking for houses.

Kent now has more than 60 pharmaceutical and biomedical companies together employing 10,000 people, including four of the world's top 10. Apart from Pfizer, Glaxo Wellcome has a production site at Dartford, Abbot Labs has its European clinical trials centre at Queensborough, and Rhone-Poulenc Rorer has its UK HQ at West Malling.

Inward investment will account for only 15 to 20 per cent of the new jobs Kent is looking for, so it is important that existing companies grow as well. That, in turn, has an international dimension. "We can only grow them if they get into new markets. We are seeing our domestic market share attacked by foreign companies so our companies have got to go after international market share," says Malcolm Allan, chief executive of Kent Training and Enterprise Council (Kent Tec).

Kent Tec is among six county-wide business support bodies which are set to be amalgamated into a single point of contact, known formally as the Kent Chamber of Commerce, Technology, Training and Enterprise, and informally as the New Kent Chamber.

"If we can't compete with places that attract big government grants, what we will compete on is a sophisticated and effective back-up system for people who want to trade from Kent," Mr Allan says.

That involves links with other parts of the world with similar economies. A website has been developed with Penn State University in Pennsylvania, and a deal had been agreed with the Greater Seattle Trade Alliance whereby companies in Seattle and Kent hold video-conferences about doing business together.

Locate in Kent, the county council, the Tec and Kent Economic Forum, representing business groups, are hiring consultants to find a new image that will help sell the county abroad. The "Garden of England", while helpful for tourism, is no longer thought to reflect the image the county wants to project of technology and enterprise.

The rustic label is a hard one to bury, however, and a sensitive issue given the environmental concerns which accompany development. The new image, therefore, will be portrayed as complementary to the old.

Kent

THE ENVIRONMENT

Developments need creative thinking

Housing is the hottest issue while the county strives to maintain its image as the Garden of England. **Brian Groom** reports

Robin Thompson, Kent's strategic planning director, looks out of his office window in Maidstone across a car park and a rundown railway station. He muses about the possibilities of building high-quality housing over the car park, next to an advanced light rail system.

Kent will need creative thinking if it is to maintain the quality of its environment. Its desire to be part of a European banana-shaped development region stretching to Turin, in Italy, could – if mishandled – damage a county that still thinks of itself as the Garden of England.

Apart from a planning blight along the route of the Channel Tunnel rail link, housing is the hottest issue, as it is throughout south-east England. According to the government's household projections, Kent will require 141,000 homes between 1991 and 2016, a 23.3 per cent increase.

The government's department of environment, transport and the regions predicts that 6,000has of rural land will be developed in Kent over the same period if trends continue. "That's three times the size of Canterbury," says Dan Clay, senior planning officer for the Council for the Protection of Rural England (CPRE) in Kent, which publishes maps showing how far the areas of rural tranquillity have shrunk since the 1960s.

Mr Thompson says Kent's developed areas have grown slowly, from 11.8 per cent of the total in 1961 to 14.5 per cent in 1990, but Kent county council is sensitive to the issue. Along with Serplan, the planning conference for south-east England, it questions the government's forecasts. It does not believe single-person households will be created as quickly as has been predicted without public subsidy.

Serplan proposes lower figures, but its options would still leave Kent requiring up to 130,200 homes by 2016, compared with 116,000 in its present structure plan, which runs until 2011.

Kent is more fortunate than some counties in that it has enough former industrial land, particularly in the north and east, to build a higher proportion on brownfield sites than the 60 per cent which John Prescott, the deputy prime minister, announced in February as his new target.

Of the homes already planned, 31,000 are scheduled for Dartford, Gravesham and the Medway towns. Looking further ahead, the massive regeneration project around Ebbsfleet and Bluewater could create 30,000 homes on areas of former cement works and chalk quarries, meeting nearly a quarter of the county's need. Other growth points in the structure plan include Ashford (13,900), Swale (13,200), Maidstone (10,600) and Canterbury (10,300).

CPRE would like Mr Prescott's target raised from 60 per cent to 75 per cent. It also wants development planned in shorter five-year periods, with maximum numbers of homes rather than minimums, released in phases according to need rather than designated years in advance. Mr Clay worries about whether water supplies will be sufficient for the homes, without damaging rivers further.

The key to Kent's future lies in its towns. It has 17 or 18 of between 40,000 and 100,000 inhabitants and Mr Thompson believes these can be strengthened by creating more housing in them through "sensitive infilling".

The planners' preference is to do it that way, rather than spread housing around the countryside – not just to avoid despoiling the landscape. It is easier to provide integrated transport if people are in towns.

Light rail systems are planned, when passenger forecasts and finance permits, between Dartford and Gravesend and between the Medway towns and Maidstone.

Lyminge Forest near Folkestone, where Rank has planning permission for a £100m Oasis holiday village, is a big target for protesters even though the company's proposals include planting hundreds of thousands of indigenous trees and shrubs to replace a commercial conifer plantation.

Economic development, sensitively handled, could improve Kent's environment by bringing prosperity to its rundown areas. Its rural fabric, however, remains vulnerable.

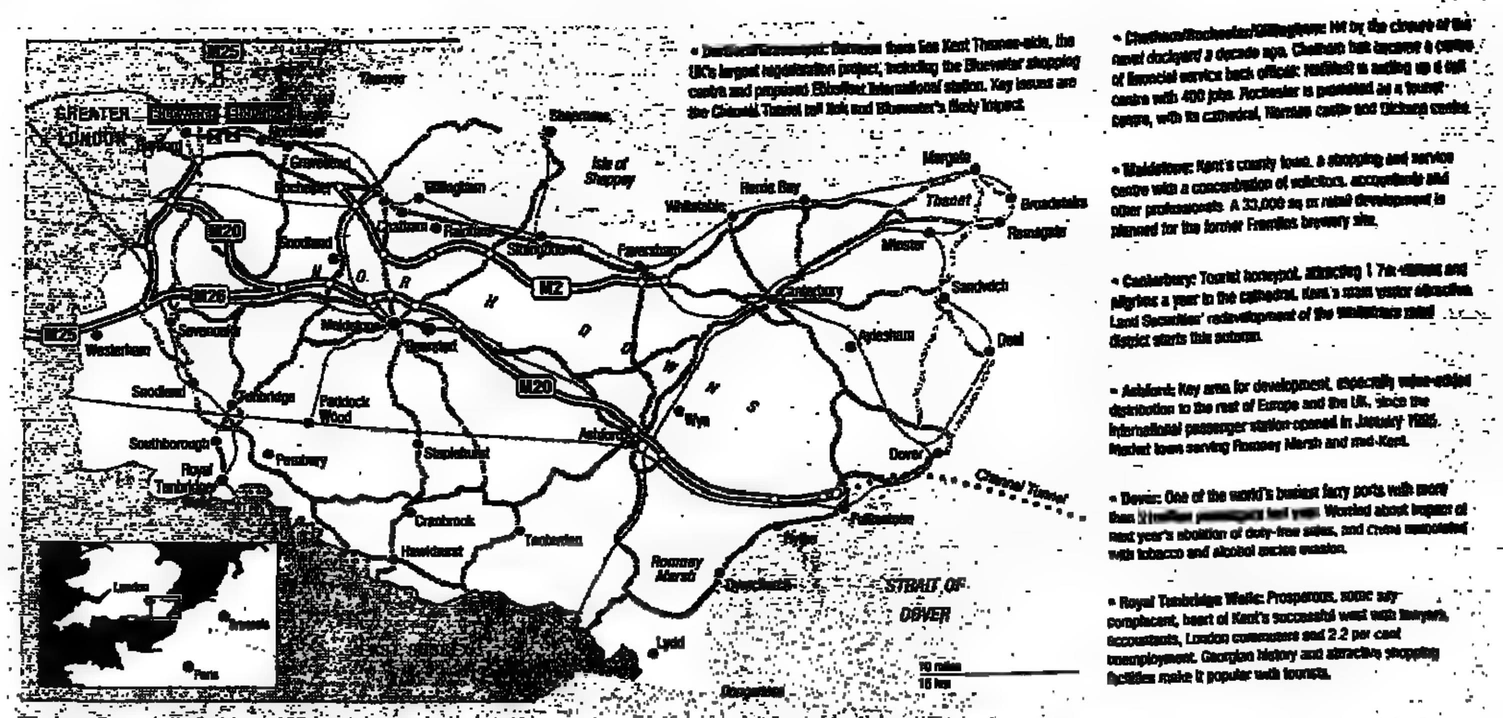
New homes for the south-east 1991-2016

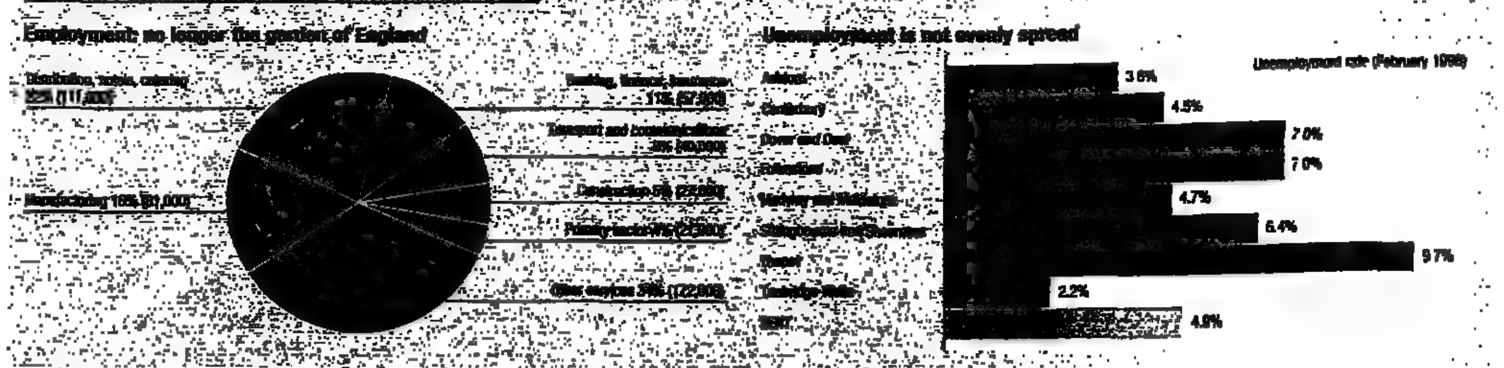
	Government household projections	Increase %	Serplan's maximum option
Bedfordshire	64,900	31.2	68,800
Berkshire	108,000	38.6	87,600
Buckinghamshire	101,600	41.6	82,600
East Sussex	66,000	21.0	60,300
Essex	143,000	23.4	111,000
Hampshire	163,000	26.3	124,400
Hertfordshire	89,000	23.6	73,200
Isle of Wight	7,000	13.6	12,700
Kent	141,000	23.3	130,200
Oxfordshire	76,000	34.5	61,600
Surrey	77,600	19.0	57,900
West Sussex	69,000	23.6	62,200
South-east	1,103,600	24.4	914,300

Kent's existing plans 1991-2011

	New homes
Medway towns	16,000
Ashford borough	13,900
Swale borough	13,200
Maidstone borough	10,600
Dartford borough	10,500
Canterbury district	10,300
Shepway district	7,800
Tonbridge & Malling borough	7,700
Thanet district	6,500
Dover district	6,100
Tunbridge Wells borough	5,700
Gravesham borough	4,600
Sevenoaks district	3,100
Kent	116,000

Source: Above, Serplan Right, Kent Structure Plan 1996





Kent lags behind the rest of the south-east

Performance indicator (1997)	Kent	South-east	UK
GDP per head	[illegible]	[illegible]	[illegible]
Labour productivity in manufacturing	[illegible]	[illegible]	[illegible]
Gross hourly average earnings	[illegible]	[illegible]	[illegible]
Percentage of working age people in jobs	[illegible]	[illegible]	[illegible]
Unemployment rate	[illegible]	[illegible]	[illegible]
VAT registrations as per cent of stock	[illegible]	[illegible]	[illegible]
Business survival rate	[illegible]	[illegible]	[illegible]

Source: [illegible]

Big ambitions for the future

Performance indicator	1996	1997 estimates	Targets for 2006
GDP	£12,569m	£12,944m	£17,574m
GDP per head	£8,278	£8,287	£11,080
GDP growth rate	-2.0%*	3.1%	3.3%**
Manufacturing as per cent of GDP	17.8%	17.7%	21.3%
Total employment	617,000	618,000	672,000
Unemployment rate	7.9%	5.4%	5.4%

*1991-1996 average **2001-2006 average

RETAILING

'Dinosaur' can expect 30m visitors

Like it or hate it, the Bluewater complex will have a strong impact on the area's economy. **Brian Groom** reports

Bluewater shopping and leisure centre, under construction near Dartford, close to the interchange between the M25 and the A2, will be the the UK's largest when it opens next March. Measuring 1.6m sq ft, it is expected to attract 30m visitors a year and generate up to £700m turnover.

Already it is 90 per cent let. Normally such a centre would expect to build up to its potential within three years, but David Hatton, development director, says: "We will be looking for those sort of figures in year one."

The centre has its critics, who believe it will create traffic problems and take business away from town centres. "It's a dinosaur. It wouldn't get permission now," says Dan Clay, senior planning officer for the Council for the Protection of Rural England (CPRE) in Kent.

Bluewater was granted planning permission in 1990 and is the latest in a controversial series of out-of-town centres. These centres include the north-east's Metro Centre, the Midlands' Merry Hill, Sheffield's Meadowhall, Essex's Lakeside, Manchester's Trafford Centre, and the recently-opened Cribbs Causeway near Bristol.

If opposition is muted now it is partly because Lend Lease, the Australian developer, was chosen by Blue Circle, the original site owner, not only because of its financial strength but because of its expertise in working with local communities.

Parties of local retailers, councillors, mothers and other community groups have all been welcomed to the site, on a former chalk quarry. Lend Lease has planted 1m indigenous trees and shrubs and designed its ventilation shafts to look like Kentish oast house roofs.

Lend Lease argues that Bluewater brings a new type of retailing to Kent, where residents have to travel as far as Kingston-on-Thames, London's West End or even Brent Cross in north London for big-item shopping. Bluewater expects to draw custom from people living anything up to 60 minutes' drive time away.

Bluewater will be a triangular mall featuring three big department stores – John Lewis, Marks & Spencer and House of Fraser – one at each corner. There will be 300 shops on two levels, mostly clothing and "lifestyle" retailers, and three "leisure villages" incorporating restaurants, cafes, a fitness centre and multiplex cinema.

The large leisure element is one result of market research. Lend Lease conducted studies into lifestyles, minded people's children while they took part in focus groups, and put video cameras in areas where people shopped to study their behaviour.

The big question is the impact it will have not only on nearby Dartford and Gravesend, but potentially as far away as Maidstone. To some extent these towns, which have been working on the appearance of their own centres, will be protected by the lack of food supermarkets and do-it-yourself stores at Bluewater.

Kent's property market report, produced by the county council and Cluttons Daniel Smith, says that so far the market shows no sign of reflecting the nervousness about Bluewater's effect. It predicts that Bluewater will draw an additional £230m of spending capacity which otherwise would not have come to Kent.

It comes against the background of a strong retail market, with performance driven by Tunbridge Wells, Canterbury, Ashford and the Medway towns. New retail schemes are planned for Sevenoaks, Maidstone, Canterbury and Folkestone.

The big issue in south Kent is the European Union's planned abolition of duty- and tax-free shopping next June, with implications for Dover, Folkestone, Ramsgate and beyond. A study by Public & Corporate Economic Consultants argues that about 3,000 jobs in Kent could disappear.

Up to 13.5m cross-channel passengers, otherwise expected in 1999, could be lost because of increased ticket prices, with 2,270 jobs lost among operators, port authorities and customs and immigration, the study says.

Reduced tourist spending could lead to the loss of 5,890 jobs, with 831 going indirectly from local businesses and 155 from decreased orders to suppliers.

SHAKERS AND MOVERS By Brian Groom

Malcolm Allan

Malcolm Allan is a driving force behind the new-found unity of Kent's business support bodies. Currently chief executive of Kent Training and Enterprise Council, he is designated to play the same role in the proposed broader body, the cumbersomely-titled Kent Chamber of Commerce, Technology, Training and Enterprise, which will amalgamate six organisations, including the Tec.

Having worked in economic development jobs in North America, England and Scotland, it was in Northern Ireland that he learned the value of an integrated effort rather than having a series of competing bodies. "Although there was lots more money available in Northern Ireland, the lesson I drew from it was integration of the entire effort towards a coherent set of goals," he says.

Not only does Kent now have common goals and a more integrated set of agencies, the Tec has run a "partners' skills programme", ensuring that private developers, local government officials and government office officials can talk a common economic development language. The business is no longer just about the availability of industrial space, but about management skills.

Kent has set itself tough targets. "Wherever I have worked in places that weren't ambitious they substantially achieved mediocrity," he says. "I would like to see Kent become the kind of economy that New England became when it restructured itself."

He sets store by Michael Porter's research in the mid-1990s, which identified successful investment locations as those which offered help with supply chains and training.

Sandy Bruce-Lockhart

The Conservative leader of Kent county council had an interesting election night last May.

While the Tories, who had occupied all of Kent's 17 parliamentary seats, lost half of them to Labour, they regained control of the council – with a majority of one – from a Labour-Liberal coalition.

Not that he has had time to ponder it. Since then he has implemented a painful round of council cuts and redundancies, to cope partly with a deficit and partly with the departure of the Medway towns into their own unitary authority this month.

Mr Bruce-Lockhart is no ideological warrior. He takes a pragmatic view of a single European currency, seeing it as minor compared with the issue of exploiting Britain's relationship with continental Europe – crucial for Kent, which works alongside counterparts in Nord-Pas-de-Calais and three Belgian regions in the Transmanche Euro-region.

He has been working with Labour authorities in the Fast Links to Europe Alliance, campaigning for the Channel Tunnel rail link to be built quickly and in full. And he believes that local government's time has come. "After a century dominated by war, cold war, threat of recession, unemployment, union problems and inflation, people are turning to quality of life issues such as education and social services. We have a role to play in creating a sense of belonging," He says."

A Scot from Perthshire, he farmed in Africa for three years and has grown fruit in Kent for the past 30. Now, he says, he attends to his farm between 10am and noon on Fridays.

David Wilson

There are few parts of Kent's economic development pie in which David Wilson does not have a finger.

As managing director of the Ashford-based Eurotunnel Developments, the tunnel-builder's development and investment subsidiary, he manages six sites along the M20 corridor between Ashford and Folkestone, comprising land for production, warehousing, business parks, hotels, residential and leisure accommodation.

He is a board member of Locate in Kent, a director of Kent Tec, and a member of the south-east regional council of the Confederation of British Industry – he even holds a non-executive directorship of Folkestone Racecourse, in which his company is a shareholder. He chairs Kent Developers' Group, an association of leading developers which part-funds Locate in Kent. The developers do not see themselves as in competition, but as meeting different needs.

Eurotunnel Developments, which began operating fully in 1991, has sites including Orbital Park near Ashford – where 85 per cent of the infrastructure is in place – Waterbrook, also in Ashford, Folkestone Racecourse and Cheriton Parc in Folkestone, and Farthingloe in Dover. He believes Kent's future is bright if it can exploit European markets. "People say property is location, location, location, but it's communications – accessibility. People have got to be able to get there," he says.

He is wooing a group of Taiwanese computer peripherals companies, a test of the county's coherent approach to development.

A variety of people will advise the investors on schools, housing, training, and simple matters such as organising a reception. He has even hired a feng shui expert to check the buildings are arranged the right way.

هكذا من الأصل

Kent

TOURISM

Attractions abound for the visitors

An increase in cross-channel traffic is giving a welcome boost to employment prospects, writes **Brian Groom**

Kent is the most popular destination for overseas visitors to England among counties outside London. It has a larger number of historic houses, castles and gardens than any other shire. Offering employment to 23,700 people, tourism and leisure is among the sectors targeted for further growth in the county's economic development strategy, and is expected to generate another 4,000 jobs by 2006.

The opening of the Channel Tunnel in 1994 and the continued rise of Dover as Britain's busiest roll-on, roll-off port has helped raise Kent's profile, and the volume of visitors crossing the channel in both directions. While UK visitors spent £329m in Kent in 1996, a 17 per cent increase since 1990, spending by overseas tourists rose 60 per cent over the same period to £225m.

Pulling in the tourists
Top 10 visitor attractions*

	Visitors
Canterbury Cathedral	1,612,000
Leeds Castle	584,670
Dreamland White Knuckle Theme Park	400,000
Dover Castle	319,675
Hever Castle	320,000
Aylesford Priory	300,000
MV Princess Pocahontas (Thames boat trips)	230,600
Bewl Water	200,000
Sissinghurst Castle & Gardens	163,500
Howletts	161,006

* Attractions for which 1997 visitor figures are available. Source: Kent County Council

That figure was slightly down on the previous year, however, an indication of one of the problem areas – the strength of the pound. Sterling's strength may also have been behind a slight dip, from 4.46m to 4.39m, in the numbers visiting Kent's top 10 tourist attractions last year. Another factor could have been the introduction of charges at Canterbury *Cathedral during 1996.*

The cathedral continued to top the league of Kent's attractions by a wide margin, with more than 1.6m visitors. Leeds Castle, near Maidstone, came second with 584,670, followed by Margate's Dreamland White Knuckle theme park with 400,000.

Like other parts of the Kent economy, some areas are more prosperous than others. Much of the growth has come in inland rural areas and historic towns, such as Royal Tunbridge Wells. Traditional seaside resorts, such as Margate, Folkestone and Herne Bay, have had to fight for business in much the same way as their counterparts around the country. The coastal resorts are continuing to invest in access, infrastructure and facilities.

"One of the significant challenges is to make more of the transit visitor market," says Dave Hughes, tourism manager at Kent county council. There are 20m trips a year through Kent, 4m of them by people en route to holidays elsewhere. Persuading them to make stopovers could be beneficial.

The council has worked hard with cross-channel operators such as Le Shuttle, the car transport service through the tunnel, to build packages and short breaks for holidaymakers from Belgium, France and the Netherlands. Other initiatives include a map of ways to get off the M20 and the M2, and plans are under consideration for a new visitor attraction which would draw new arrivals into the county instead of just passing through.

Tourism has been one of the main areas of co-operation between local authorities on the two sides of the channel, working for instance on a project to attract French and English speaking visitors from Canada.

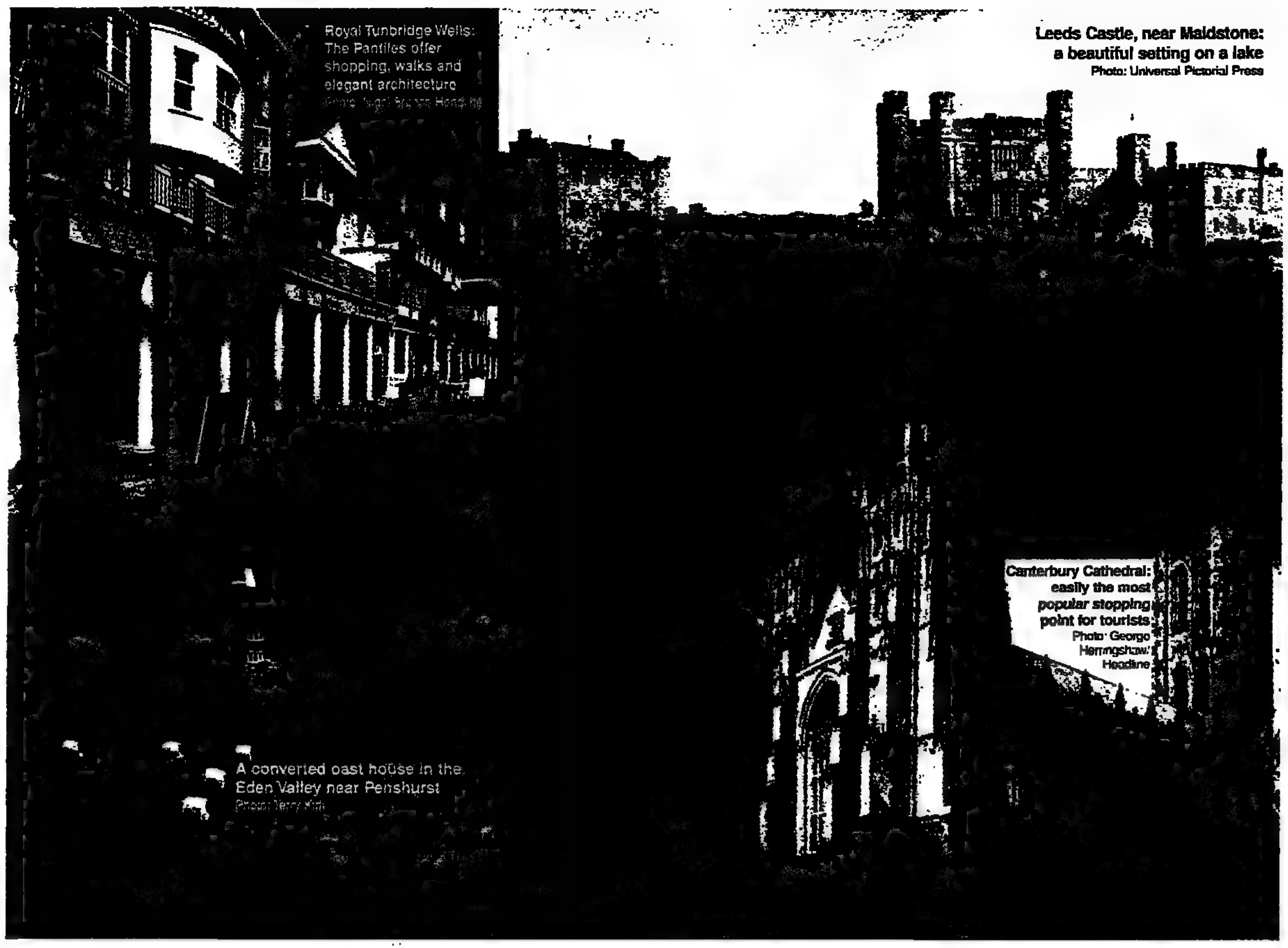
A range of public and private sector agencies has come together to launch a tourism investment in Kent campaign that is intended to raise awareness of development opportunities, increase investment and improve visitor facilities.

Investment in hotels grew to a record £18.9m last year. The biggest proposed development is Rank's £100m Oasis Holiday Village at Lyminge, near Folkestone, which would create 750 lodges and 90 apartments on 436 acres of forest, but which has been subject to environmental protests.

Kent's resource of heritage sites is diverse: it has more listed buildings than any other English county, and Sandwich has a higher density of listed buildings than any other English town.

In spite of heavy development in some parts, such as the north, Kent still has a variety of landscapes, habitats, wildlife and rural areas. Two designated areas of outstanding natural beauty cover a third of the county, the North Downs and high Weald. Garden tours to places like Sissinghurst, Groombridge and Scotney Castle are popular.

Overall, with more than 200 attractions including working farms and steam railways as well as castles and stately homes, the county has much to promote.



Royal Tunbridge Wells: The Pantiles offer shopping, walks and elegant architecture

Leeds Castle, near Maidstone: a beautiful setting on a lake Photo: Universal Pictorial Press

Canterbury Cathedral: easily the most popular stopping point for tourists. Photo: George Herringshaw/Headline

A converted oast house in the Eden Valley near Penshurst Photo: Terry Kirk

TRANSPORT

Tunnel provides both hope and uncertainty

The Chunnel link would provide significant benefit through the development of Ebbsfleet station, writes **Brian Groom**

Most places would look with envy on a county that had £26bn spent on its transport infrastructure in recent years. For Kent, the amount spent from private and public sources on the Channel Tunnel, roads and ports, while welcome, is not yet enough. Businesses and economic development officials believe more needs to be done.

The Channel Tunnel rail link is the dominant issue. The link, while a nightmare for those with properties directly along the route, would bring economic benefits for the majority. The turmoil over London & Continental Railways' finances has brought two unwelcome prospects: extra uncertainty for those with blighted properties, coupled with delays in reaping the benefits.

The principal benefit for Kent would be the development around the planned Ebbsfleet international station in north Kent, where Whitecliff Properties, a joint venture between the UK's Blue Circle and Australia's Lend Lease, has outline planning permission for 8.5m sq ft of office and residential development. The project, estimated to cost £1.5bn to £2bn over 20 years, is the largest mixed-use planning consent to be granted in England.

It forms part of the regeneration of a 2,500-acre site between Dartford and Gravesend, much of which will happen even without the link. What is affected is the speed with which a commercial district can be created around Ebbsfleet. The link would cut travel times to central London from 40 minutes to 15 – a crucial factor in attracting high-technology companies which currently locate west of London. The effect would be enhanced if local trains fed into Ebbsfleet.

Kent, however, is looking beyond the benefits within the county. Sandy Bruce-Lockhart, leader of Kent county council, has joined councillors from the north and midlands in the Fast Tracks to Europe Alliance, campaigning for the link to be built quickly and in full. London has in the past been as much a barrier for Kent as has the English Channel, cutting it off from the rest of the UK. A fast rail link through London to the north is as important as the Channel Tunnel itself in improving Kent's access to markets.

This is not to say Kent is ungrateful for what has been done. The opening of the Channel Tunnel, and associated benefits such as the completion of the M20 between Folkestone and the M25, create a huge opportunity. Ashford, where an international rail station has already been built, is growing rapidly as a centre for value-added distribution by companies such as K'Nex International, the US-owned self-assembly toy company, which packs components there before sending products around Europe.

Apart from the Channel Tunnel, train services between Kent's medium-sized towns leave something to be desired. "It takes you as long to get to Ramsgate from London as it does to reach Northallerton," says Robin Thompson, strategic planning director at Kent County Council.

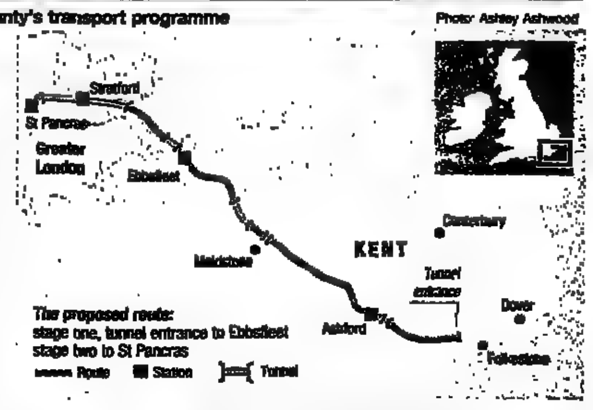
The council would like to see more invested in rail. Longer term, it proposes two light rail systems, one between Dartford and Gravesend, taking in Bluewater and Ebbsfleet, and another between the Medway towns and Maidstone, using existing tracks.

The rise of Dover, with more than 21m passengers last year, is a boost to Kent's economy. The picture in some other ports is more mixed, but those with a strong specialist role, such as the deep water container terminal at Thamesport on the Isle of Grain, are thriving.

Apart from the M20, road developments include the upgrading to dual carriageway of the Thanet Way (A299) between the M2 and Ramsgate and the A249 linking Sittingbourne with Maidstone. Pfizer, the US pharmaceuticals group which is expanding its operations at Sandwich, wants the A256 between Ramsgate and Dover to be made dual carriageway, because it is outgrowing the local road network.

If the Channel Tunnel link is built, the only major thing Kent will lack is a Heathrow or Gatwick airport – but manyresidents may feel they will have had enough major developments.

The view ahead: The Channel Tunnel railway, seen from a Le Shuttle cab, is a dominant issue in the county's transport programme Photo: Ashley Ashwood

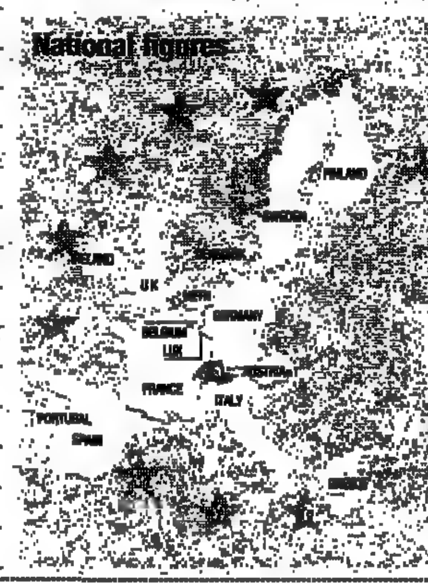


Statistics/Business parks

EUROPE'S REGIONAL PROSPERITY LEAGUE TABLE

	Region	GDP per head* (% of EU average)	Population* (Thousands)	% of GDP* derived from: Agriculture	Industry	Services
1	Hamburg (Germany)	196	1,704.4	0.3	23.2	76.5
2	Region Wallonne (Belgium)	183	3,308.7		19.2	80.8
3	Luxembourg	169	403.8	1.5	31.0	67.5
4	Ile de France (France)	161	10,980.6	0.3	25.8	74.0
5	Bremen (Germany)	156	681.6	0.3	29.8	69.9
6	Hessen (Germany)	152	5,974.8	0.5	28.7	72.8
7	Lombardia (Italy)	131	8,905.7	1.9	37.5	60.6
8	Bayern (Germany)	128	11,862.8	1.1	34.7	64.2
	Emilia-Romagna (Italy)	128	3,923.5	4.8	33.3	62.1
10	Ahvenanmaa/Aland (Finland)	126	25.1	6.6	16.1	77.2
	Baden-Württemberg (Germany)	126	10,253.0	1.0	40.5	58.5
12	Ostosterreich (Austria)	122	3,381.0			
13	Lazio (Italy)	119	5,189.3	1.8	19.9	78.2
	Nord Est (Italy)	119	6,517.2	3.7	33.0	63.3
15	SE England (inc London)	117	17,870.2	0.7	20.6	78.7
16	Nord Ovest (Italy)	116	6,083.8	2.6	31.8	65.6
17	Bruxelles-Brussels (Belgium)	116	950.3	1.8	32.8	65.5
18	Denmark	114	5,205.0	3.7	27.0	69.3
19	West-Nederland (Netherlands)	113	7,294.1	2.8	21.1	76.1
20	Nordrhein-Westfalen (Germany)	112	17,787.7	0.7	36.3	63.0
21	Westosterreich (Austria)	110	2,698.4			
22	Centro (Italy)	107	5,787.5	3.1	31.2	65.5
23	Saarland (Germany)	106	1,084.4	0.3	34.4	65.2
	Schleswig-Holstein (Germany)	106	2,761.8	2.2	28.6	69.2
25	Niedersachsen (Germany)	105	7,681.7	2.8	33.2	64.0
26	Berlin (Germany)	104	3,472.7			
27	Centre-Est (France)	102	6,864.6	2.5	33.8	63.9
	Noord-Nederland (Netherlands)	102	1,618.7	4.7	40.2	55.1
29	Zuid-Nederland (Netherlands)	101	3,395.3	3.1	32.9	64.0
30	East Anglia (England)	100	2,104.9	4.8	28.8	66.5
	Est (France)	100	5,111.2	3.0	35.9	61.1
	Rheinland-Pfalz (Germany)	100	3,938.7	1.8	37.5	60.7
33	Bassin Parisien (France)	98	10,430.5	5.9	32.8	61.3
	Scotland	98	5,132.4	2.8	30.1	67.0
	Sweden	98	8,780.8	2.2	28.7	69.1
36	Madrid (Spain)	95	5,001.1	0.2	24.9	74.9
	South-west England	95	4,798.4	3.7	27.8	68.7
38	East Midlands	93	4,102.2	2.0	37.5	60.5
39	Oost-Nederland (Netherlands)	93	3,163.4	4.2	27.8	68.2
	Sud-Ouest (France)	93	6,054.7	5.1	25.9	69.0
41	Manner-Suomi (Finland)	91	5,082.2	6.2	32.8	61.2
	Mediterranee (France)	91	6,872.6	3.3	20.4	75.9
	Ouest (France)	91	7,003.7	6.7	28.5	64.7
	Vlaams Gewest (Belgium)	91	5,856.6	2.2	27.5	70.2
45	West Midlands (England)	90	5,294.9	2.2	36.5	61.2
46	Noreste (Spain)	89	4,053.5	2.8	40.1	57.0
47	Ireland	88	3,587.4	7.5	34.3	58.2
	North-west England	88	6,412.0	1.0	32.5	66.1
49	Abruzzi-Molise (Italy)	87	1,727.2	5.0	29.1	65.9
	Nord-Pas-de-Calais (France)	87	3,991.5	1.8	31.8	66.4
	Sudosterreich (Austria)	87	1,763.7			
	Yorks and Humberside (England)	87	5,025.0	2.1	33.4	64.6
53	Este (Spain)	86	10,684.5	1.8	33.4	64.8
54	North-east England	85	3,098.5	2.2	34.2	63.6
55	Wales	81	2,913.0	2.3	33.7	63.9
56	Northern Ireland	80	1,641.7	4.8	26.3	68.9
57	Sardegna (Italy)	78	1,658.4	5.4	25.8	68.7
58	Canarias (Spain)	75	1,535.3	2.8	18.8	78.6
59	Attiki (Greece)	73	3,486.2	2.2	25.6	72.2
60	Sicilia (Italy)	70	5,054.6	6.7	20.2	73.1
61	Campania (Italy)	69	5,807.4	3.8	20.3	76.0
62	Continente (Portugal)	68	9,408.3	4.1	34.1	61.8
	Sud (Italy)	68	6,798.5	7.2	19.8	72.9
64	Nisia Aigaiou, Kriti (Greece)	67	1,001.2	23.5	18.4	61.1
65	Centro (Spain)	66	5,271.1	8.8	34.0	59.2
66	Brandenburg (Germany)	64	2,537.2			
	Noroeste (Spain)	64	4,338.2	5.8	33.3	61.0
68	Voreia Ellada (Greece)	62	3,363.4	21.8	30.4	47.8
69	Sachsen (Germany)	60	4,598.0			
	Sachsen-Anhalt (Germany)	60	2,768.6			
	Thüringen (Germany)	60	2,533.3			
72	Sur (Spain)	58	8,295.7	8.8	27.0	64.3
73	Kentriki Ellada (Greece)	57	2,575.8	24.5	28.7	46.8
	Mecklenburg-Vorpommern (Ger)	57	1,837.9			
75	Madeira (Portugal)	52	256.0	4.4	18.4	77.1
76	Acores (Portugal)	48	238.8	11.8	19.8	68.4

National figures



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2	Belgium	114	10,115.6	1.7	29.2	69.1
	Denmark	114	5,205.0	3.7	27.0	69.3
4	Austria	110	8,039.3	2.4	38.9	58.7
	Germany	110	81,538.6	1.1	34.5	64.4
6	France	106	57,899.8	3.3	28.5	68.2
7	Netherlands	105	15,382.2	3.3	27.3	69.4
8	Italy	102	57,203.5	3.5	29.2	67.2
9	United Kingdom	99	58,394.5	1.9	29.2	68.9
10	Sweden	98	8,780.8	2.2	28.7	69.1
11	Finland	91	5,088.3	6.2	32.3	61.5
12	Ireland	88	3,587.4	7.5	34.3	58.2
13	Spain	76	39,143.5	3.4	31.5	65.1
14	Portugal	67	9,902.2	4.3	33.5	62.2
15	Greece	63	10,426.5	14.8	26.3	58.9
	European Union	100	371,607.1			

* 1994 figures

Source: Regional Trends

TOWN VERSUS COUNTRY

Tougher restrictions may boost business

Potential tenants of new sites will be looking for, among other things, good transport links, says David Lawson

Ten years ago, an obscure change in planning law opened up hundreds of sites across the country to businesses trapped in crowded towns and cities. Politicians are now trying desperately to force the genie back in the bottle. But they seem doomed to failure.

Business parks flourished on the promise of high-tech buildings, swish offices and generous car parking in pleasant surroundings. They have become victim to their own hype, however.

Glazed pavilions set in rural splendour are a potent image for drawing in tenants, but they grate on the nerves of users and also attract the ire of countryside campaigners.

In fact, most parks are on reclaimed sites on the fringes of towns, according to Patrick Deigman, chief executive of Arlington, the country's largest park developer. And, ironically, parks could flourish rather than wilt under tighter planning restrictions.

Those already up and running will become even more attractive as parking restrictions bite new sites. Many have anticipated traffic controls by building in public transport links. Arlington has plans for monorail connections in Manchester, Birmingham and Bristol.

Other developers' giant projects such as Blythe Valley in Solihull and the Thames Valley's Green Park have been integrated into new access roads and bus routes.

Many insiders believe such parks could be central to ideas for "transport development nodes" now floating around Whitehall. But not every park will meet the tough new criteria. Most sprang out of an era when motorway access was the prime consideration to attract top tenants.

And there are more still in the pipeline. Grimley International calculates a potential for almost trebling the current stock to 130m sq ft – more than 10 per cent of all UK offices.

This massive buffer of development which already has planning permission appears a big stumbling block to restricting countryside development. But many will never come out of the ground, according to Alistair Eliot, of property consultant Knight Frank. "They will need renewed or more detailed planning permission, and that "will not happen in many cases," he says.

"Potential tenants will also be looking for public transport links because they, too, anticipate a crackdown on cars in future. One solution may be a return to urban areas."

There is bound to be a trend back into towns over the next 10 years by both people and business, says Trevor Silver, a director of Akeler Developments. He is working on plans to regenerate the nine-acre Daily Record site in central Glasgow into a 400,000 sq ft business park.

This will be nowhere near the scale of Akeler's pioneering Doxford Park in Sunderland but will share the same kind of flexible buildings in pleasant surroundings. The main difference is the denser urban dimension, with buildings at 45,000 sq ft per acre rather than 18,000 sq ft.

Urban parks are few and far between, however, and reversing the flow out of town will not be easy. Arlington is a market leader with schemes in towns such as Coventry, Oxford and Gloucester, but these are redundant car and aircraft sites passed on by parent company British Aerospace.

Assembling similar blocks of land under multiple ownership would be difficult. One possibility in London is the 33-acre Chiswick Park, where work on spectacular plans for 1.5m sq ft of high-class offices came to a halt in the recession.

This is one of the last development assets of Kvaerner, which is selling its property portfolio.

More conventional fringe urban sites are thin on the ground, however. Ironically, this is because tougher planning controls on out-of-townsites are pushing up prices to levels affordable only to housebuilders.

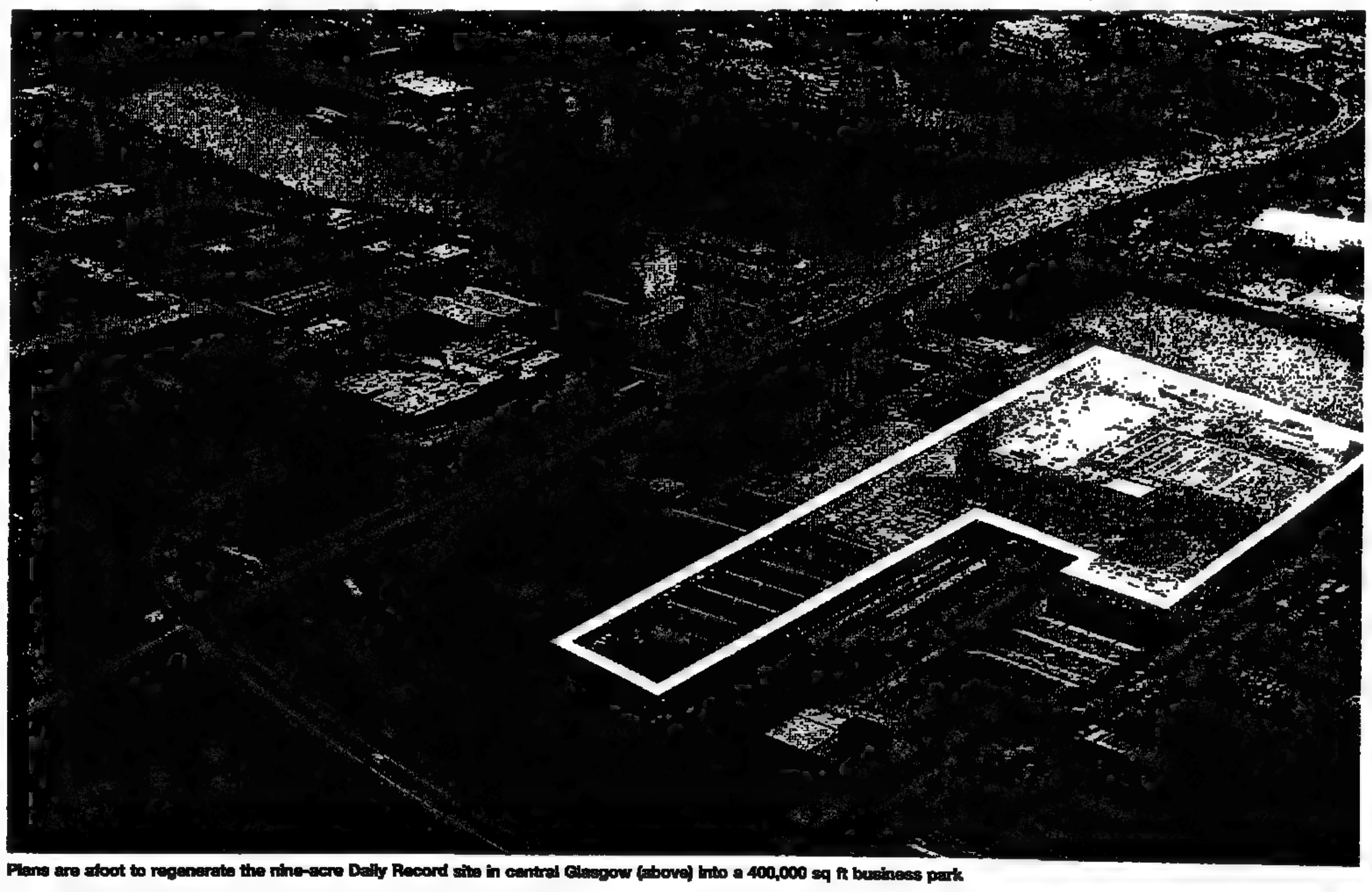
Higher parking fees in towns are another backlash which will drive businesses out rather than bring them back, says Grimley.

Local politics are running counter to government aims in other ways. Akeler's Mr Silver admits to frustration finding sites, particularly London. "When we try this in the regions, local authorities welcome the new jobs. In the south-east they seem to find barriers," he says.

Councils will need to improve town centres and public transport before (new developments) if they want to hold onto businesses, says Angus McIntosh, research director for consultant Richard Ellis. He points out that staff are the prime consideration to employers, and the best people will not work in tired and rundown cities.

Rather than move into town, investors may recycle buildings put up in the early surge of development. The *Dow Chemicals buildings* at Stockley, near Heathrow, were being held up until recently as the epitome of modern business space on the UK's leading business park. Yet Standard Life has paid £25m for the now-vacant 70,000 sq ft to renovate them.

If business parks can adapt this quickly – and change their focus to meet new transport demands – they will continue to thrive. Town centres will have to match this flexibility to compete rather than rely on increasingly tough planning controls.



Plans are afoot to regenerate the nine-acre Daily Record site in central Glasgow (above) into a 400,000 sq ft business park

PACKAGES

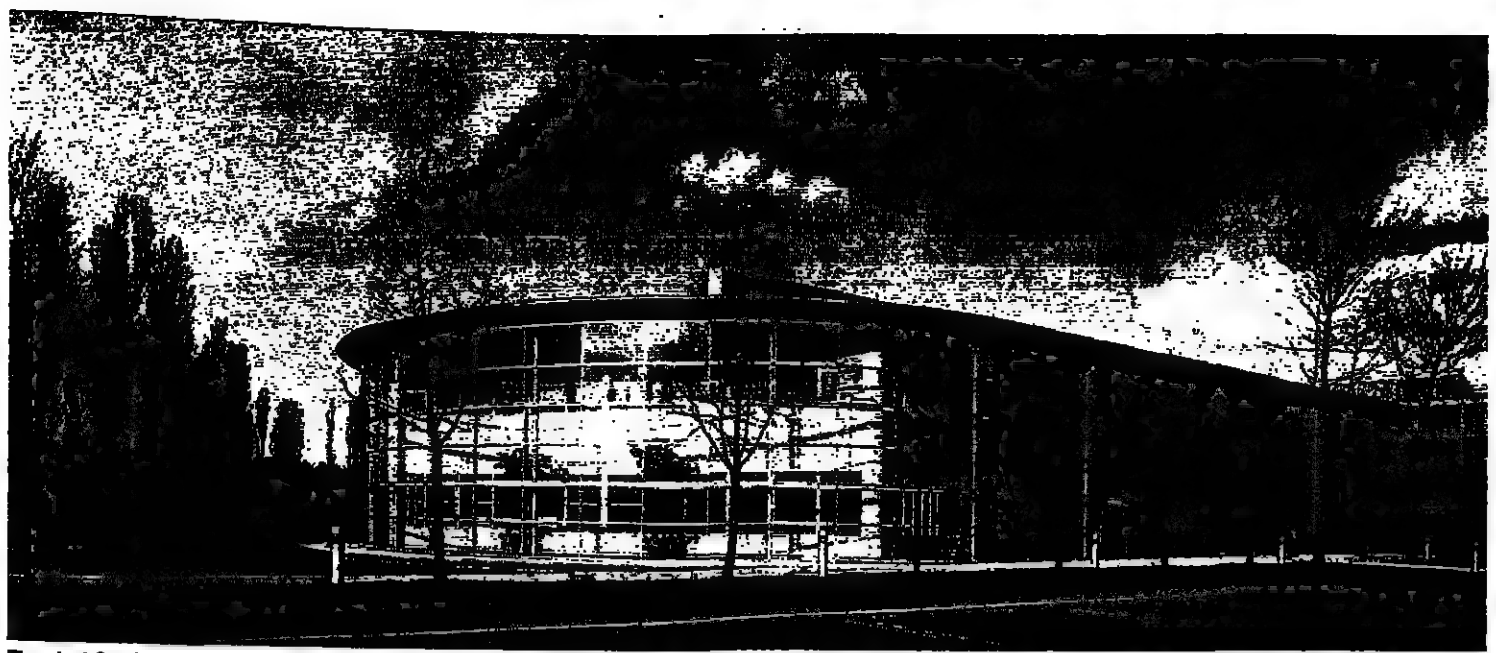
There's a

THE THAMES VALLEY

Concentr

Breathing sp
at Green Par

Business parks



The giant Stockley Park site near London's Heathrow airport, developed by Kajima, Prudential and Chelsfield since 1985, is approaching completion. The US group Aspect Telecommunications moved in early this year, occupying premises (above) that took just eight months to build

PACKAGES

There's a revolution taking shape

Businesses are becoming more aware that mundane tasks in the workplace use valuable resources. David Lawson reports

Cleaning toilets and weeding flower beds do not rate highly in the priorities of where companies locate. Such mundane tasks could hit the agendas of board meetings very soon, however, as part of a revolution in the way buildings are provided.

This has nothing to do with obscure new regulations slipped into European law but a lot to do with the way businesses are run. Toilet cleaning, gardening, catering, security, water supplies and telephone links are part of a huge range of services which keep any organisation going. And they take up valuable time and resources better devoted to core activities.

The last government kick-started the idea that landlords should do more than let a building then sit back and collect the rent. The Private Finance Initiative (PFI) suggested a package of accommodation and services in exchange for an all-in charge.

While the industry pondered such a momentous change, the UK's biggest business park developer jumped into action. "It seemed perfectly suited to our kind of activity," says Patrick Deigman, chief executive of Arlington Securities, the property arm of British Aerospace.

Many parks already provide a mix of tenures, ranging from large freeholds through conventional leaseholds to "nursery" units for start-up companies. Recent moves have seen Regus, the fast-growing serviced office company, expanding onto business parks. Mr Deigman wants to offer something between Regus's all-in accommodation and full PFI-style packages.

"Occupiers want to know how much premises cost," says Mr Deigman. "That does not just mean rents, but all the services. An insurance company does not want to wait until the end of the year when all the bills have come in to see whether a salesman is getting good value out of his 20 sq ft."

Wrapping up all these services with rents in a quarterly package gives a more immediate picture. Tenure would be by licence rather than lease, perhaps on a 5,000 sq ft building agreed for 10 years.

This is a step up from the deals already being worked out by Arlington, which involve using bulk purchasing power to buy utilities such as water and electricity for tenants. Telephone services are also offered at discount rates, providing extra benefits such as networking and links to staff homes. The company has moved deeply enough into this area to set up a new division.

If these package deals take off they could spread rapidly through the property industry as tenants demand a similar approach. The main stumbling block is funding. Investors are comfortable with conventional long leases and regular rent reviews. They could shy away from short-term deals based on cashflow valuations.

But Andy Martin of Arlington's property advisers, Strutt & Parker, expects views to change as tenants see the new approach in action.

"Real estate investment trusts work this way in the US," he says. "Banks in this country would leap at the chance of structuring deals based on good covenants and fixed-rate debt."

The package would resemble those set up for leasing other asset classes such as aircraft. "We have had some very big inquiries and I would not be surprised to see a few examples in the next few months," says Mr Martin.

Some sceptics remain unconvinced. "Landlords do not have to provide these packages to get tenants in a buoyant market," says Tony Fisher, regional director at Chesterton. But he accepts that such moves will eventually emerge as a new kind of property service.

Mr Deigman harbours no such doubts. "This is not being driven by landlords but by tenants looking for a new approach to premises," he says. Investors are also fascinated by the PFI approach, but put off by the risk of experimenting with large city-centre buildings, he says.

Business parks have a sufficiently wide variety of premises to test the concept.

Progress may depend as much on Arlington's own future, however. British Aerospace is considering floating the company or selling out. But if Mr Deigman is still in charge this time next year, expect what he calls a "new chapter in business parks" to open with some revolutionary changes.

OUT OF LONDON

Regions seen to offer exciting prospects

Proximity to airports can often be an important factor when considering location, writes David Lawson

A shiver of excitement ran through the Midlands when news leaked out that Oracle, one of the world's biggest software companies, was considering building a large office centre just outside Birmingham.

Most leading in towns the UK have at least one international name in residence, and technology plants have popped up on sites ranging from Strathclyde to the Welsh valleys. But this Midlands development – if it comes off – will show that a top-flight tenant can be attracted out of the south-east without resorting to an armoury of grants or political arm-twisting.

This coming-of-age is not before time. There have been business parks in the regions ever since planning rules changed in the 1980s. In fact, the West Midlands has almost as much office space – around 3m sq ft – as towns in the Thames Valley, according to Applied Property Research.

The difference emerges when other kinds of business park space are included. The south-east has a total of almost 30m sq ft compared with the Midlands' 7.6m sq ft, according to Tim Heatley, head of business parks at Grimley International. This is partly because the regions lag a year or two behind London during economic growth cycles but can collapse earlier in recession. By the time parks had become established in the regions, the early-1990s crash meant development almost ground to a halt.

"There are now some exciting prospects around major centres like Edinburgh, Birmingham, Manchester, Nottingham and Leeds, as tenants look for a quality of space they cannot find in town centres," says Chris Hiatt, of Jones Lang Wootton. But the momentum could take a couple of years to translate into growth as nervous investors wait for pre-lets rather than anticipate demand.

Arlington, the country's biggest park developer, has maintained momentum in towns such as Gloucester and Oxford, changing the face of old airfields and car sites passed on by its parent company, British Aerospace. A trickle of lettings has also justified continued speculative development. Now the company has plans for new schemes, including one in south Manchester and more than 1m sq ft beside the M8 outside Glasgow.

They all have special reasons for optimism. The Thames Valley grew on the back of proximity to Heathrow airport and a skilled labour force. Manchester, Birmingham and the Central Valley of Scotland are now offering similar access to international airports and staff.

Blythe Valley, a 100-acre site on the M42, has taken 10 years to get off the ground. But if the partnership between the local council and developers Kingspark and British Land can attract the 2,000 jobs Oracle is proposing, it will underline the claim that the Midlands can compete.

These regional centres will not have to rely on IT companies fleeing northwards, however, says Nick Williams, of DTZ Debenham Thorpe's Birmingham office. He says that finance groups are growing organically in the regions and demanding the quality and surroundings only available on these parks.

An explosion in call centres has added another layer of demand as banks, retailers and public utilities move these labour-hungry operations out to cheaper locations where they can pick up regional employment grants. Akeler showed the way by attracting London Electricity to Doxford Park in Sunderland almost five years ago, and now also houses Barclays, One 2 One, Royal and Sun Alliance and Post Office centres. The park has created more jobs than those lost by the shipyards it replaced.

Tony Fisher, of property consultant Chesterton, is less enthused than most about the amount of development taking place in the regions but his company is looking for up to six call centres of 120,000 sq ft each for BT. "This kind of expansion will drive the market forward and help rents move up," he says.

That, in turn, will draw in funding and stimulate further development. Investors have already begun to recognise the potential for growth. Guardian bought the latest phase of Arlington's Birmingham Park for £8.3m last year, while Abbey Life spent around £15m funding two speculative buildings on Amec's Cheadle Royal park in south Manchester. Friends Provident also put £11m into Edinburgh Business Park.

"Rental growth is strongest in south-east England so that is where funding has been concentrated. But this will flow faster into the regions in future," says Mike Cutteridge, investment director at DTZ Debenham Thorpe.

THE THAMES VALLEY

Concentrated high-tech

This corridor west of London has been transformed from a rural backwater to a European centre, writes David Lawson

While travelling into London along the M4 or railway line it is difficult to believe that the endless green fields are the crucible of 21st century industry. Even more difficult to grasp is the claim that the furnace is running out of space.

The Thames Valley, once a quiet rural backwater, now holds more high-tech companies than any other part of Europe. It also has the largest concentration of business parks, driven by the trend for these companies to seek big, modern buildings in green locations.

During the past couple of years alone, leading companies such as Microsoft, Oracle, Sun and Computer Associates have burst out of the narrow constraints of the area's small town centres and begun building more than 1m sq ft of space.

Rents have taken off, resuming the dizzy rise last seen in the 1980s. Some recent lettings have exceeded £25 a sq ft, and developers are beginning to react with speculative building. But it may be too little and too late to prevent overheating.

"Rents will probably hit £30 [a sq ft] this year because potential space available is so thin on the ground," says James Kennedy-Cooke, of property consultants DTZ Debenham Thorpe.

The problem is that investors and banks bruised by the last property crash were reluctant to back development until rents bounced back in the last six months. "A decade ago a wall of development emerged to satisfy demand, with business parks popping up everywhere," says Tony Fisher, of Chesterton International. "This time around the market has been too slow to react."

But the industry faces a dilemma. Even if it started tomorrow to meet the volume of demand, buildings would not be ready for at least 18 months. By then the economic cycle may be heading downwards, and investors could be left licking their wounds again.

But even if growth does slow, IT and pharmaceutical companies will need more space, and there is relatively little left in an area constrained by green belts and other planning controls.

So why not look elsewhere? Oracle is doing this, sniffing around the Midlands after deciding that headquarters being built at Argent's Thames Valley Park are inadequate to meet the big software company's ambitions. Drug companies are also drifting into Kent, keen to be near the new European regulation agency in London's Docklands.

But this will merely take the edge off the now-traditional concentration on sites between Hammersmith and Newbury, drawn by access to Heathrow airport, central London and the pool of skilled labour.

There is still room for expansion on existing parks being built around Reading, but the underlying fear is that the well will run dry in some 10 years' time.

"There is a real danger that if further land is not released, high-technology companies will look abroad for expansion," says Nigel Aslin, a partner with Strutt & Parker.

Breathing space at Green Park

Standing in almost 200 acres of land at Junction 11 on the M4 to the west of London is the area's latest giant business park, with a capacity for more than 2m sq ft of buildings. This is probably the last big greenfield site in the area, so it is appropriately named Green Park, writes David Lawson.

In theory the £50m infrastructure programme should offer a 10-year breathing space, but at the rate large companies are swallowing land at the moment, this vast acreage could be filled much sooner.

Sun Microsystems absorbed a whole business park, taking a site beside on the M3 from MEPC to build a 350,000 sq ft HQ. Smith-Kline Beecham's on-off marriage with Glaxo has not shaken plans to take most of the remaining land at Stockley Park, near Heathrow, for a 500,000 sq ft headquarters.

Mike Rolls, of the Prudential, who has spent nearly a decade preparing Green Park for launch, remains tight-lipped over whether a similar big sale is likely. He prefers to concentrate on plans for a 100,000 sq ft speculative block set to start in June. This is aimed at smaller tenants.

"It is important to get people on to a development quickly to give it life," he says. Nearby land has also been sold to Costco, the US discount warehouse club.

There will be no shortage of bidders next year, however, when the A33 relief road link is complete and the park's gates are fully open. The question remains whether the Prudential will go for a long building programme or sell the fruits of 10 years' labour to big IT companies looking for sites.

Call centres

NORTHERN ENGLAND

The Warrington connection

Sheila Jones reports on BT's success in setting up one of the country's largest phone centres

Ian Davis smiles broadly as he gazes across the floor of British Telecom's gigantic call centre in Warrington. A buzz of chatter from the floor means the lines are busy. Mr Davis, the call centre's director, bubbles with enthusiasm. "Call centres have made a phenomenal difference for us," he says. "It's a very effective way to talk to customers and to get your products into the market place."

The explosion in call centre business has brought thousands of jobs to the north of England. In the north-west alone, more than 30,000 people are employed in call centres, accounting for 20 per cent of call centre jobs in the UK.

BT's Warrington centre is one of the biggest in the country. It operates two shifts a day, employing more than 2,000 people. At any one time, about 500 tele-operators are busy talking to customers. An automated dialling system sends calls through to each operator at a rate of eight to 10 an hour. As the call comes through, a script appears on the operator's PC screen giving details of a customer's account. The operator's job is to retain and develop BT's customer base. "We call customers on a regular basis to tell them about savings they can make, and to build loyalty," says Mr Davis.

Warrington is one of five BT centres across the UK. It was built as a warehouse and converted two years ago. The 120,000 sq ft floor is a matrix of cubicles in a vast open-plan space. Team leaders run groups of 12 operators, monitoring calls and coaching staff. Each shift starts with a team briefing.

Across the floor there are 54 TV screens and four giant screens conveying the company message or giving details of the latest product. There is a Big Brother feel about it all, although Mr Davis argues the operation is about effective communication.

"I don't think there is anything Big Brotherish about it," he says. "The challenge is to ensure we convey a consistent message to our customers." The screens are also used to communicate with staff in areas such as training, he says.

Locations such as Liverpool, Warrington, Manchester and Leeds, which have attracted thousands of call centre jobs, attribute their success to a combination of the availability of skilled labour, appropriate sites and telecoms infrastructure. The grant and support regimes have also been important in reducing start-up costs and encouraging investment.

Ventura, the Next subsidiary, is the latest arrival in Yorkshire and Humberside. It won a package of incentives to set up a customer service centre in a jobs blackspot in South Yorkshire.

Some companies suggest that a friendly and easy-going manner among northerners may also be a factor in attracting call centre investment.

In addition to company-dedicated call centres, the sector has also produced rapid growth in call centre agencies, which provide services for more than one company. ADS Telemarketing, based in Manchester, is the front line for all calls to Ofgas, the gas industry regulator, for example.

It also runs telemarketing operations for the Central Office of Information, the Co-operative Bank, and Wedgwood. Its operators may look after four companies at a time, or they will be dedicated to one customer if the work is highly specialised.

ADS opened a second site in Bristol to cope with the rise in business. It chose Manchester and Bristol partly because of their universities, says Sally Penn, managing director. It gave the group access to skilled labour, including graduates, and to students looking for occasional work. Like other call centres, ADS operates flexible shifts and contracts which means the company can gear up swiftly to peak periods and shift down when demand slows.

The rapid growth in call centres has led to labour shortages in some regions. Companies opening new operations are now more likely to choose Wales, Scotland, Ireland or north-east England because of worries that the north-west is saturated and the labour market tight.

A high concentration of call centres on Merseyside means that IBM, for example, is likely to choose Scotland over Merseyside for its new multilingual call centre which is expected to employ about 600. In the north-east, Barclays recently announced it would open a new telebanking centre in Sunderland next year, employing 2,000. Newcastle and Washington have also won large call centre investments in recent months.

Merseyside, like other regions, is trying to shift towards more diverse and advanced call centre operations. It is targeting the three main growth sectors: shared service facilities, combining back office and customer care operations; pan-European centres requiring multilingual skills; and technical help lines.

Skills shortages and a shift towards more value-added services in call centres has also prompted growth in public-private partnerships in the provision of training, and other initiatives designed to meet the industry's needs.

On Merseyside, a database has been compiled of more than 800 operators with multilingual skills. "That's the sort of support level companies from North America, for example, are demanding before they will even look at a location," says Neil Rami, marketing director for Mersey Partnership, the regeneration agency.

In Yorkshire and Humberside, a forum has been created combined training and enterprise councils, local authorities, call centre companies and academic organisations. In Leeds, which dominates in financial services call centres, a regional call centre user group was created in 1995. This brings together organisations including the Leeds Financial Services Initiative, a private sector group, and Bradford University Management Centre. It runs seminars and workshops and collaborates with industry in an attempt to improve call centre skills and performance.

Bradford Council and the local Tec teamed up with call centre companies in 1996 to create a call centre training unit.

The increasingly advanced skills required for both operators and managers means employees are being equipped with "skills for the 21st century", according to Chris Llewellyn, investment manager of the Northern Development Company, based in Newcastle. Information technology and management skills, coupled with more specialised subjects, such as accounting, are "readily transferable" to many other applications, he says.

For the northern regions, future growth will depend on their ability to fulfil the labour and skills needs of an industry that is growing rapidly and becoming more global. Employers will also need to consider the more advanced nature of call centre concerns of employees, whose motivation is critical to a the centres' success.

Ian Davis at BT's Warrington centre: 'There's nothing Big Brotherish about it'

CASE STUDY Restaurant Express

Phones and food are right ingredients

It might not be the wisest thing to do, to order tempura from a computerised takeaway service offering delivery within an hour. The dish has to be served straight from the frying pan or it will be soggy. The tempura *was* soggy, of course, but the rest of the meal was fine and it arrived roughly within the time promised.

Call centre technology has opened a huge new area of business ideas for the imaginitive entrepreneur.

One of them is Mark von Stein, a US businessman working in home delivery services. He brought an American idea to Liverpool and now his company, Restaurant Express, is negotiating terms for expansion elsewhere in Europe and it is being groomed for flotation on London's alternative investment market (Aim).

Restaurant Express is a few steps up from the traditional takeaway service. It has partnerships with more than 200 restaurants in the UK and is aiming to treble that by the end of the year. Restaurant menus are published in glossy booklets for each town and city served by the company. In Manchester, for example, 25 restaurants across the city are listed with full menus. In London, 50 restaurants have been signed up.

Callers throughout the UK phone one number to place their orders. These go through a call centre in Liverpool, where tele-operators key in the details and fax through the information to the restaurant. A follow-up call ensures the order has been received. The Liverpool centre has the capacity to take one order per minute, and is aiming to take 16,000 orders a month by the end of the year.

Restaurant Express supplies participating restaurants with containers and packaging, so when the meal arrives it is wrapped in Restaurant Express livery. Delivery agents have Restaurant Express uniforms. "They are waiters on wheels, not that much different from a waiter in a restaurant," says Alex von Stein, a director and son of the founder.

The company has grown rapidly since setting up late in 1996. New customers and their orders are kept on a database, and discounts are offered to regular callers. "We can pick up a bottle of wine or a pack of cigarettes on the way for a customer we know," says Alex von Stein, "so long as it doesn't hold up other deliveries".

The company was set up with capital of £700,000, funded by venture capitalists 3i, the Merseyside Special Investment Fund, Midland Bank, and the government's department of trade and industry. Most of its directors used to work for the Home Delivery Network in the US, where the idea to expand into Europe was developed.

Mark and Alex von Stein, and other directors, bought out the rights and software to operate exclusively in Europe, but the two companies keep in touch, exchanging ideas, experience and software developments.

"As we roll out here in the UK, and elsewhere in Europe, we're sharing ideas with Home Delivery Network as it plans its own expansion across states in the US, though our operation here is more centralised through the *Liverpool call centre*," says Alex von Stein.

A recent innovation is the company's message despatch system, developed with Nokia and Orange. Messages are delivered to Restaurant Express delivery drivers directly from the company's PCs to the drivers' mobile phones.

Alex von Stein: sharing ideas with Home Delivery Network

The company's software and database can be used in many more distribution and delivery applications, such as flower delivery and theatre bookings, says Mr von Stein.

The company also believes it can achieve growth through sales links with other organisations; customers can, for instance, collect Air Miles.

The company is using the UK as a springboard into other European markets, starting in Germany this year. It is aiming to turn in a profit by the third quarter of this year. Turnover is £1.25m a year and it is growing by 20 per cent a month, according to Mr von Stein. He hopes the summer flotation will help the company fulfil what he sees as virtually endless possibilities.

Sheila Jones

WALES

The lure of a delicate lilt

Stunning views across open countryside *can be part of a package to lure bosses* and staff. **Juliette Jowit** reports

The story goes that a man rang his computer help desk hotline to complain the coffee cup holder was broken. Bemused staff puzzled for a while before realising the problem was the retractable CD-Rom tray.

Despite the everyday frustrations, however, call centres are greatly sought after, with regions across the UK and the rest of Europe vying to win a share of this growing industry.

Wales makes up about 6 per cent of the UK population, and accounts for about the same proportion of call centre jobs. As competition increases, the principality hopes to maintain, if not expand, its share.

Leading the drive for this investment is the Welsh Development Agency, which lists 34 call centres in the principality, employing more than 7,000 front-line and back office staff.

These range from eight people employed at the Patent Office in Newport to 1,000 at Companies House in Cardiff, but it is the smaller, more specialist operations that the WDA is keen to attract, says Enid Rowlands, chairman of the call centre strategy group.

"The very big 1,000-and-over sector would just never work in rural areas. We do not have the density of population to sustain that type of operation."

Existing investors bear witness to the broader strategy of attempting so far to attract big household names: sites in Wales are operated by AA, British Gas, British Telecom, HSBC Direct, Kays Catalogue, Legal & General, Lloyds Bank, Midland Bank and NatWest. For the future, the WDA is in talks with companies in a number of other more specialist sectors, including sales and travel inquiries, and medical advice.

These sectors, and other targets, such as IT and computing, *offer the advantage* of high quality jobs, with good training and better pay, says Ms Rowlands.

The WDA's publicity material promises investors a range of advantages: staff, infrastructure and financial incentives.

There is a widespread pool of available workers, who enjoy a reputation for being flexible, low turnover rates and good labour relations – last year there were no strikes lasting more than one day in Wales.

Wages are lower than in most other parts of the UK for staff, ranging from £7,800 for a single language telesales operator to £15,000 for a multilingual sales rep.

Language skills are good, especially in university towns and cities such as Cardiff, Swansea, Aberystwyth and Bangor, and there is the lure of the "delicate Welsh lilt".

"The Welsh accent scored quite highly in extensive research, far higher than many other regional accents, and we've found it creates a

Continued on Page 10

Call centres

LONDON

Language skills are a key factor

The capital is winning business, even though centres can be housed almost anywhere. Alan Pike reports

"London – the Call Centre Capital of Europe." Inward investment organisations often allow themselves a modest degree of poetic licence when competing to attract new business. But surely this statement in a briefing by London First, the capital's inward investment agency, risks being dismissed as absurd?

Since call centres can be housed almost anywhere, is there really a justification for locating them in the relatively expensive environment of London and the south-east?

The response of the market is a clear "yes". Both London and the wider south-east region are shown to be performing strongly in region-by-region studies of call centre location. The Mitial group's 1997 call centre location study found that, measured in terms of employees, London has 15 per cent of the UK sector's jobs and the south-east a further 11 per cent. Locations outside the capital with substantial call centres include Milton Keynes, Brighton and Kent.

London's bid to be considered a desirable location is particularly targeted at clients with specialist needs, notably in language skills. This is illustrated by some of the centres that have recently opened or expanded in the capital.

Delta Airlines established its centralised European reservations sale centre at Park Royal, west London, two years ago. The airline estimates that it will save £24m over five years as a result of consolidating activities previously handed in reservations offices in Amsterdam, Athens, Barcelona, Brussels, Copenhagen, Dublin, Helsinki, London, Madras, Paris, Rome, Vienna and Zurick. It regarded London as the only European location capable of providing the multilingual workforce that the consolidation exercise required.

AT&T Solutions' global customer service centre in the City of London, which was expanded last year, handles enquiries from 20 countries in Europe, the Middle East and Africa. Employees each speak an average of three or four languages, and 80 per cent are graduates.

In addition to being able to meet language requirements, some organisations see a London location as adding status or credibility to their operations. "From the US point of view, you can't qualify for doing international business and not be in London," says Bob Nielson, UK managing director of Gallup, the market research organisation. Gallup established its European response centre in London two years ago.

About one-third of all UK residents who were born in continental Europe or the former Soviet Union states live in London, with more than half the total living in London and the south east combined. For some nationalities – including Spanish, Portuguese, Swedish and Turkish – London and the south-east's proportion of the total is higher still.

Access to a large pool of native European language speakers in backed-up by London's extensive structure of universities and other higher education institutions, producing a regular supply of language graduates. Westminster University teaches 26 languages – believed to be the largest number of any institution in the UK.

"Access to language skills is obviously one of our important strengths in attracting call centres," says Andrew Cooke, London First's executive director for business development. "But there are other important considerations in our favour as well. Because of the overall size of the London economy and labour market there is not the same risk of the call centre sector overheating, leading to constant poaching of staff, as there is in smaller locations.

"London's size means investors can choose from a complete range of properties and working environments."

Some companies choose to contract out call centre activities rather than provide them directly – although customers are unlikely to notice the difference when telephoning. A new report from Sitel, a leading provider of outsourced teleservices, endorses the view that, while it is simple to choose the cheapest location for a call centre, selecting the most effective one is a "complex decision requiring careful thought and analysis".

This applies, it says, to both in-house and outsourced centres. "Every business has to think carefully about the need for proximity to its own call centre and the impact that this has on its relationship with its customers."

Following this principle, Sitel opened a call centre in the City of London at the end of last year. Sitel the City, as the centre is known, will serve all activities in which the company is involved in the UK – including utilities, automotive, the public sector and travel – but is expected to be of particular interest to financial services organisations. The ease with which potential clients will be able to visit the centre was a factor in the decision to locate it in the City of London.

Cosmopolitan London and the south-east

Country of birth	In London		In south-east excluding London		In south-east and London		Total in Britain
	Number	% of total in Britain	Number	% of total in Britain	Number	% of total in Britain	Number
Germany	32,027	15	54,533	25	86,560	40	215,534
France	20,923	[illegible]	14,324	27	35,247	66	53,443
Italy	30,052	33	22,755	25	52,807	58	91,010
Netherlands	5,974	20	9,379	32	15,353	52	29,442
Spain	19,647	49	8,088	23	28,146	72	38,729
Denmark	4,250	30	4,389	30	8,589	60	14,226
Belgium	4,112	25	5,135	31	9,247	56	16,418
Greece	7,120	49	2,616	18	9,736	67	14,610
Portugal	13,125	66	3,303	17	16,428	83	19,775
Luxembourg	229	32	226	32	455	64	705
Norway	2,118	24	2,361	27	4,479	51	8,884
Austria	6,445	31	5,085	25	11,530	56	20,646
Switzerland	4,118	33	3,871	31	[illegible]	64	12,613
Sweden	4,081	37	3,617	33	7,698	70	11,054
Czechoslovakia	3,412	39	2,020	23	5,432	62	[illegible]
Hungary	4,451	36	2,501	20	6,952	56	12,487
Poland	21,823	30	11,252	15	33,075	45	73,738
Turkey	20,426	77	2,567	10	22,993	87	26,597
Cyprus	50,684	65	8,993	11	59,677	76	78,031
Former USSR	5,234	19	3,756	[illegible]	8,990	33	27,011
Total	259,721	34	[illegible]	22	431,454	56	773,470

Source: London First

THE MIDLANDS

Cosy chats are job winners

Michelle Reynolds visits some traditional industrial centres to discover how a softly-softly approach has been successful

When North America's largest credit card group was deciding where to locate its first overseas call centre, the east Midlands city of Nottingham would not, perhaps, have been the first location in everyone's mind.

Within the UK, Scotland and north-west England have attracted the most publicity over the success and proliferation of their call centres and they might have expected to host yet another foreign investment.

However, it seems it was the Nottingham people's tendency to want to stay and chat over a beer after a long day of interviews that convinced Nigel Morris, Capital One's chairman, that these would be the type of people his customers would like to speak to over the telephone.

With £30m to invest and in need of a 900-strong workforce, Capital One wanted to make sure it had the right people. Apart from good results from the psychometric, numerical and verbal reasoning tests, it was the Nottingham applicants' social skills which impressed the Capital One management team. "They stayed behind at the end of the evening to chat to the people who ran the tests. They were friendly and interested," recalls Mr Morris.

After initial contact in May, Nottingham had been shortlisted to one of three sites by June.

In September the East Midlands Development Company was told that Cork, in the Irish Republic, was the main competition. A "warm" letter from the UK prime minister, a "quality of life" tour and more telephone calls helped to seal Mr Morris's decision, and by November Nottingham had been chosen.

Capital One, one of the region's newest employers, is to take over an old printing site which belonged to Boots, one of the most established employers. The centre is scheduled to open in 1999 to help service Capital One's UK customer base and provide a springboard into European markets.

While the character of Nottingham's workforce obviously influenced Capital One's decision, the East Midlands Development Company, English Partnerships (which is investing £2.9m) Nottingham City Council and the government's department of trade and industry were all involved.

At the time Capital One announced its investment at the beginning of December, John Finch, the development company's chief executive, said: "We're convinced it will stimulate further investment."

Indeed, hard on Capital One's heels came the Prudential Corporation, which announced in February it would be setting up a call centre in Derby. It plans to create up to 1,500 jobs over five years in an expansion of its direct banking operations.

The investments are significant for the east Midlands, which accounts for just 4 per cent of UK call centre jobs, according to a recent survey conducted by the Mitial Group. However, John Finch, EMDC chief executive, says the figure is misleading, "and quite frankly I find it quite hard to believe".

He said while the east Midlands may not have the largest number of call centres it probably featured much more highly in terms of the number of people employed: Barclaycard's centre in Northampton alone accounted for between 3,000 and 4,000 people.

One of the reasons companies such as Viking Direct, the office supplies business, and RCI, the US timeshare group, chose the area was the adaptability of the workforce, says Mr Finch. "Most of these places run a 24-hour operation with split shifts, people around here are prepared to do that." He says United Parcels Service, the US company, cut its staff turnover rates by 70 per cent compared with sites in London. Regardless of the statistics, "we're pretty confident we've got a good story here."

The west Midlands has also secured just 4 per cent of UK call centre jobs, although Paul Richards, chief executive of the West Midlands Development Agency, points out that this still accounts for some 200 centres.

Recent additions include Ionica, the national telephone service provider – which created 800 jobs last July with the opening of a new centre in Birmingham. Barclaycall, Barclays' specialised telephone service, opened its first call centre in Coventry in 1995 and the workforce has grown from from 170 to 380 employees. Another financial services group, Prudential, launched a centre in Dudley in February 1996 and now employs 760 there.

Scoot, the interactive consumer information service group, started in Telford in October 1997 with 150 people and intends to expand to 450. Robert Hartley of Telford Development Agency says the group's location criteria included the availability of suitable buildings, an appropriately skilled labour force and the local college which provides training for call centre services.

Mr Richards says it was often the availability of a qualified workforce within the west Midlands area – 60 colleges of further education and eight universities are situated within the region – that was a big attraction for operators when considering locations.

However, Mitial said one of the reasons the west Midlands had not attracted as many newcomers as other regions was that it had failed to counter the negative perceptions of the "Brummie" accent.

To overcome negative perceptions, the WMDA has invested resources to make the region attractive to prospective call centre operators. In conjunction with Birmingham City Council, Birmingham Tec and Birmingham Chamber of Commerce, a centre of excellence for call centres has been established, located in Birmingham. It is aiming to provide support for new and existing call centre operations and focuses on three areas: an employers' forum to hold monthly seminars on call centre issues; a technology forum and a call centre college to provide specialist training.

Call Centres

SCOTLAND

Rush of facilities form a pillar of tartan economy

Local enterprise companies are being credited with much of a continuing success, says James Buxton

From people in Rothesay on the Isle of Bute processing applications for bank loans to those in central Glasgow dealing with a rush of queries to the BBC Helpline following a stimulating programme, the call centre has become a pillar of the Scottish economy.

The days when Scotland could claim to have one in five of all call centre jobs in the UK are over as other parts of the country have caught up. But Glasgow, Scotland's biggest city, promotes itself as the UK's Call Centre Capital, a title it invented for itself following its success in attracting some of the UK's first such establishments.

While opinions differ as to the importance of the Scots accent in winning customers, Scotland has probably succeeded in identifying itself with the call centre industry to a greater extent than other parts of Britain.

In the past year announcements of new call centres in Scotland have come thick and fast, with more than 3,000 jobs promised within about a year and nearly 5,000 more over the next six years.

The calculation by Mitial, the consultants, that Scotland in 1997 had 12 per cent of UK call centre employment, putting it behind north-west England and Greater London, is becoming out of date, and no published directory gives an up-to-date list of centres north of the border.

However, the widely accepted figure last year was that 17,000 people were employed in about 200 call centres in Scotland, of which 8,500 were in Glasgow.

During 1997 First Direct, the telephone banking subsidiary of HSBC, announced an operation at Hamilton, Lanarkshire, which will eventually employ 5,000 people. Midland Bank opened a centre in Edinburgh, while Bank of Scotland chose to set up in Motherwell. More than 6,000 people applied for the first 100 jobs after Cable & Wireless selected Bellshill.

Last month Tony Blair, the prime minister, announced that the US company Teletech was to create 500 jobs at a centre in Glasgow, joining long-established operators such as BT, British Airways, Lloyds TSB, Direct Line and many others.

Ewan Gowrie, chairman of the Call Centres Association and development director of TSC, a call centre operator in Scotland, says part of the country's success in winning call centres is due to the initiative shown by some of the local enterprise companies, the Scottish equivalent of TECs.

Mr Gowrie singles out those in Glasgow, Lanarkshire, Forth Valley and Fife. He says financial assistance from public sector bodies is often important to companies in deciding where to locate call centres, although factors such as the availability of suitable labour also count.

The Glasgow Development Agency, which focused on call centres in the early 1990s when its lack of greenfield sites made it almost impossible to attract manufacturing investment, has helped to upgrade the industry by developing a certificate in introductory call centre skills, offered by the Scottish Qualifications Authority.

Last year it launched a campaign with employment agencies to make call centre employment known to more people in Glasgow. Stephen Running, of the GDA, insists that the Talking Jobs campaign was intended to avert a potential shortage of applicants for call centre jobs, not to alleviate an actual shortage, as has been suggested by some of Glasgow's rivals south of the border.

"With less than 2 per cent of the city's population working in call centres the idea of a labour shortage is absurd," he says. The publicity campaign was considered useful as most people have never seen the inside of a call centre, while negative stories about the work circulate. The campaign enabled call centres and agencies to build up databases of people wanting to undertake such work.

The early development of call centres in Scotland has triggered the growth of a network of specialised suppliers, providing anything from cabling to space management. As well as operating a 100-seat call centre at Rothesay, on the Isle of Bute, TSC has a systems integration team which sets up computer and telecommunications arrangements for other call centres, with specialists travelling all round Scotland.

The Isle of Bute, a half-hour ferry journey across the Firth of Clyde, has proved a canny choice for a call centre, according to Alistair Kay, TSC's sales and marketing manager.

The population of this declining seaside resort is both well educated and stable: the centre has had almost no staff turnover. "That means that the people working on a particular client's account are the same people who were doing the job the year before." Mr Gowrie has says. "It's tantamount to having the people working in your own operation."

Because Bute is covered by Highlands and Islands Enterprise, TSC benefited heavily from grants and other assistance. This year it announced it would open a second centre in the HIE area at Dunoon, and it is considering setting up operations in Oban, in Argyll, and Dingwall, near Inverness. The French company Cap Gemini was another pioneer of call centres in the Highlands, with operations at Forres and Inverness.

The industry can operate easily in rural as well as urban Scotland because of the investment that BT and HIE have made in telecommunications in the Highlands and Islands.

As for the Scots accent, Mr Gowrie says it is a "serious bonus" that it is perceived as more trustworthy than some other British regional accents, but adds: "No one is going to move a £3m business from the south of England to Scotland just for the accent."

CASE STUDY Direct Line Financial Services

Banking on speed and convenience

"As you can see, there aren't any men with whips forcing people to work harder," says Stephen Geraghty, managing director of Direct Line Financial Services, as he walks round the office in Glasgow. The company is an offshoot of Direct Line, the group which revolutionised motor insurance by selling it over the telephone and thus almost invented the UK call centre.

Though Direct Line Financial Services is a leading name in the UK call centre industry, Mr Geraghty is anxious to distinguish it from some operators which share the call centre label and may encourage the sweatshop image that is sometimes attached to the sector.

"If you're thinking of a call centre such as one where people take down pager messages in some draughty hanger then I don't think we count as a call centre at all. We're a bank which includes a call centre as a quick, convenient way of dealing with our customers," Mr Geraghty says.

Direct Line Financial Services, which is part of Royal Bank of Scotland, sells mortgages and life insurance, takes deposits and provides personal loans, and deals with its customers by telephone. Every weekend it advertises on TV and in the newspapers and braces itself each Monday for a surge of calls from potential clients.

Each call has to be answered within 20 seconds and the interaction with the customer may last as much as 20 minutes. If a sale is made a pack is sent out to the customer that day, to be returned and processed.

One of the most difficult managerial tasks at Direct Line Financial Services is predicting the flow of calls and matching it to the most appropriate number of people. Direct Line Financial Services employs about 400 individuals, both full time and part time, which works out as 320 full- time equivalent jobs. Full-time staff work a 35-hour week but most people do overtime. Average salaries are just under £10,000, varying according to how many products the person is qualified to handle.

The atmosphere is remarkably friendly and, visited on a less-frenzied Tuesday rather than a Monday, there are plenty of smiles. Contrary to the call centre image of serried ranks of telephonists, staff work to cells of eight people and though most of them are wearing headsets it looks much like any other modern office. Far from being out on a business park or industrial estate, it is in the heart of Glasgow.

The average age of the people working at Direct Line Financial Services is 23 and the majority are women. "We look for people who are good at talking and listening, and sound friendly and efficient," says Mr Geraghty. Many of them have previously worked for other financial services companies, such as banks and building societies.

What annoys potential customers most is not getting what they wanted, he says. It is crucial that agents have a good understanding of the product. Staff are initially given four weeks training, and then work in the nursery area where they are under closer supervision than later. Further intensive training is given when staff upgrade to a new product, and the time agents spend on a call is monitored.

Although the agents have to take customers through a formal procedure laid out before them on their computer screens, and have a book of appropriate phrases to hand, he does not believe the customer "gets the impression of speaking to an automaton. We expect people to have a conversation with the customer".

If it were not for the fact that staff never meet the customers it is much like any other business.

James Buxton

Telecoms carriers such as Energis are building call centre features into their networks to manage incoming calls

TECHNOLOGY

Outlay is quickly recouped

Joia Shillingford reports on some of the advances being made, particularly in software, as business surges in Europe

Next time you pick up a telephone to buy a cinema ticket or query a bill you will probably be talking to a regional call centre.

When you phone an 0800 number to order a personal computer from Dell you are put through to its Irish call centre. And when you call Virgin Cinemas to book a ticket you are put through to a call centre in Scotland.

Call centres are springing up everywhere because the technology is cheap and the payback is quick.

According to London-based researchers Ovum, a typical small call centre with 40 seats costs $2,200 per seat to set up in Europe. This includes a telecoms switch, a computer telephony integration (CTI) gateway and CTI software, and perhaps an upgrade to the company's server computer. Computer telephony integration integrates telecoms and computer technology so that, for example, when a customer's phone number is detected, his or her details come up on screen.

The good news is that a small call centre can pay for itself in extra revenue in as little as four months. The most expensive elements of setting up a call centre are systems integration consultancy – to make the telephone system and computers work well together – and the CTI software.

Even in a worst case scenario, a small call centre will cost around $14,000 a seat to set up and have a payback period of 19 months. A large call centre of 100 seats costs more to set up but the cost per head is lower.

A typical payback period, according to Ovum's report, is 10 weeks for a large call centre.

Call centre demand is buoyant as Europe increases its business done by telephone rather than face to face. Ovum estimates that this year there will be 244,000 UK call centre seats equipped with computer telephony integration software. By 2002, this will rise to 542,000 seats, the company predicts.

Meanwhile, "UK revenue from CTI in call centres will rise from $353m this year to $440m in 2002," says Madan Sheina, a consultant at Ovum. In the US, the market is largely being driven by software upgrades. "Software is now the main differentiator in the effectiveness of call centres," adds Mr Sheina.

In addition to rapid growth there are three key trends in the call centre market, he says. First is the growth of informal call centres. This is where call centre technology is applied to a general business area rather than a structured function such as sales.

On a micro level, CTI features are starting to be built into desktop software such as contact manager or personal organisers.

The second trend is the use of distributed call centres where incoming calls are shared between more than one centre, or even passed to call centre staff working from home. This requires heavy support from technology.

The third trend is growing integration between call centres and the internet. "On some web sites on the internet a caller can press a button and be routed through to a call centre," says Mr Sheina. "On others, there's a callback feature where the user sends an email requesting a phone call at a particular time."

Moreover, "successful web sites often have large call centres behind them," says Bob Scott, director of electronic commerce and customer care at Cap Gemini, the European computer services company.

There are two main types of call centre – inbound and outbound. Sometimes an inbound call centre will have a CTI server computer that captures the calling line's number from the telecoms switch.

An alternative to using caller ID is voice recognition software. This allows the name to be matched against an information database to bring up details of that customer's previous calls.

Interactive voice processing software can be used to provide skills-based routing instead. This is when the caller chooses between a menu of different prompts to be passed on to the appropriate at the call centre.

Automatic call distribution software is used to make sure calls are distributed evenly between the different call centre agents. If a call needs to be transferred to another agent, voice and data transfer software make it possible to transfer details about the call, along with the call itself.

Similar technology is used in outbound call centres with the addition of predictive dialling, where the system dials and redials numbers for the agents. There are also some integrated suites of software available for the larger call centres.

But Cap Gemini's Mr Scott says: "Companies often make the mistake of thinking that their inbound and outbound call centres are interchangeable and that one can easily handle overflow from the other. This is not the case because the type of people skills needed for handling enquiries (inbound) and selling (outbound) are very different.

"People often damage an expensive sales campaign by putting the wrong staff on the phone, or putting them on without adequate training."

Nevertheless call centres are here to stay. "They will become part of the fabric of business life," says Mr Sheina.

The lure of the Welsh lilt lives on

Continued from Page 8

good impression on the company's sales all over the UK," says Henry Engelhardt, managing director of Admiral Insurance Services, which employs 600 people in Cardiff and Swansea.

To ensure the workforce is backed with the right skills, training agencies have set up a range of programmes targeted at the call centre industry, including a special vocational qualification pioneered in Scotland.

Of vital importance, too, the WDA boasts good telecommunications networks, provided by BT, Mercury, and CableTel, which is investing £400m in Wales, and the agency can offer a range of sites across the principality.

At 12 key locations, planning permission and facilities have been put in place for call centres for 20 to 200 staff, and these can be built and fitted out in six to 12 months. At two sites, one in Swansea and one at St Asaph in north Wales, speculatively built centres are under construction.

Apart from practical advantages, some of these locations also offer an attractively high quality of life, claims Enid Rowlands.

"From my window [at the St Asaph site] I can see the blackthorn in bloom and we can watch the foxes at lunchtime...if you want a high quality physical environment for your workforce, there are a range of locations, particularly in the more rural parts of Wales."

With most of Wales covered by assisted area status, investors are offered financial packages and help with buying or leasing property, training staff, and installing infrastructure.

As a result, the WDA claims companies' running costs in Wales will be among the lowest in the UK: from £900,000 to £1.1m a year for a small operation and £7.1m to £8.7m for a larger project.

This compares with more than £1.4m and £9.5m and above respectively in Birmingham, London and Manchester. Only a few centres, such as Dundee, offer a cheaper price at both levels.

Within Wales, it is the south-east and north-east corners which have won the lion's share of call centre investment so far, and Cardiff and Newport recently launched a special initiative to attract further jobs.

Beyond this affluent pocket, the WDA sees call centres as a key to creating jobs in the less prosperous and more needy regions of west and mid Wales.

In these areas, the strategy of targeting small specialist projects makes most sense: spreading the risk of any job losses and offering better paid, long-term jobs where they are needed most.

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Korea

Confidence has returned but observers are concerned that the reform programme is in danger of running out of steam, reports **John Burton**

A test of the public will

A visitor to Seoul this spring might be forgiven for thinking that South Korea never underwent a severe financial crisis last winter.

The Lotte department store, the city's biggest, is filled with shoppers who were staying at home just a few months ago. Traffic jams have returned to the streets. Restaurants are jammed.

Korea's success in rescheduling $22bn in foreign debt after the International Monetary Fund provided a $58.5bn rescue package in December has created a sense of confidence that the nation has dealt with the worst of its financial crisis.

But observers are warning that Koreans may be becoming too relaxed and the economic reform programme Seoul promised the IMF it would implement is in danger of running out of steam. "The sense of urgency is less than it was a few months ago," said You Jong-keun, a top economic adviser to the new president, Kim Dae-jung.

"The greatest danger to economic reform is complacency. Korea has to move quickly to maintain momentum," said William Rhodes, Citibank vice chairman, who helped arranged the nation's foreign debt deal with 134 international banks.

The truth of the matter is that Korea has still not fully addressed the structural problems of its economy, including debt-heavy industrial groups, insolvent banks, and growing unemployment, despite an impressive array of policy initiatives by the new government.

"Restructuring at the regulatory and macro levels is proceeding quickly. Now the focus must be on what is going on at the micro level," said Kim Hun-soo, research head for Merrill Lynch in Seoul.

Corporate debt poses the biggest problem since it nearly brought down the undercapitalised banking system as bankruptcies increased last year, triggering the foreign debt crisis. Total corporate debt is estimated at nearly twice the gross domestic product.

This excessive amount is difficult to service as the economy plunges into a recession. Corporate losses are likely to balloon this year after listed companies reported total losses of Won4,500bn in 1997 despite 5.5 per cent growth in GDP.

There are few possibilities of new rights issues to raise capital because corporate credit ratings are poor. The IMF has imposed high interest rates to stabilise the currency, but this is squeezing companies further.

Troubled conglomerates, or *chaebol*, are still being propped up by emergency bank loans instead of being allowed to fail. Nearly 40 per cent of bank credit in the past six months has been emergency loans.

This has created a perverse situation in which distressed companies are receiving loans, while healthy businesses are being denied credit.

The banks are reluctant to apply pressure because more bankruptcies would swell the amount of non-performing loans, which could wipe out bank equity and lead to closures.

Although the official estimate of non-performing loans last year was pegged at 6 per cent of total lending, analysts believe the true figure, using tougher international criteria, was at least 15 per cent – a figure which could jump to 30 per cent this year if more big bankruptcies occur.

The Korean government, worried about growing unemployment, has supported giving credit to ailing companies. It recently encouraged banks to roll over maturing commercial paper to prevent a credit crunch. But this has increased moral hazard.

Sprawling conglomerates have shown few signs of undertaking extensive restructuring. "The *chaebol* are hoping to ride out the storm," said Richard Samuelson, branch manager for SBC Warburg Dillon Reed.

Industrial groups are betting on a rise in exports, helped by a cheap currency, to generate cashflow. But analysts doubt whether this will occur as demand slumps in the rest of Asia, Korea's biggest export market.

The *chaebol* are cutting investments to save money. But they are resisting efforts to sell large chunks of their industrial empires and focus on core businesses. Foreign investors are little interested in the unprofitable corporate offerings being put on the auction block.

Executives are struggling to change attitudes that emphasise market share rather than profits, while they are still uncomfortable with the concept of answering to minority shareholders.

Pressure on the *chaebol* is mounting. New laws require them to improve corporate transparency, abolish cross-payment guarantees, reduce heavy debts, and make *chaebol* owners assume management responsibility. The question is how quickly the conglomerates will respond.

The slow pace of their reform could trigger social unrest. Trade unions made an unprecedented deal in February to accept the end of lifetime employment guarantees, based on a promise that the *chaebol* owners would give up some of their economic power and make themselves more accountable.

Some workers feel they have been betrayed. "I consider (the labour reform deal) as good as broken because it is only workers who are forced to bear the brunt of the ongoing crisis," said Lee Kap-yong, a hardline labour activist who was recently elected head of the dissident Korean Confederation of Trade Unions.

His threats of staging a general strike carry weight as unemployment reaches a level not seen in at least two decades.

With 10,000 workers losing their jobs daily, unemployment is expected to reach at least 10 per cent this year. But social benefits are still meagre despite government plans to spend Won8,000bn on relief and job training schemes.

President Kim's efforts to push through reforms have been hampered by a political stalemate with the opposition Grand National party, which controls parliament, while he must share power in a coalition government with a conservative partner.

The GNP, which lost power in the December presidential election, has used its slim majority in the National Assembly to block approval of the appointed prime minister, Kim Jong-pil. It has also attempted to weaken reform legislation because of the centre-right party's close links with the *chaebol* and bureaucratic old guard.

The new government is praised for showing the political will to implement reform and is being assisted by a good economic team. The danger, however, is that any slowdown in momentum will allow vested interests to regroup and resist any changes that threaten them.

Deregulation could suffer because of bureaucratic inertia, and corruption is still a problem. The president has attempted to tackle this by trimming the powers of the finance ministry, which wielded immense influence over the economy.

Mr Kim has also focused on educating the public so as to overcome resistance to reform and he has been blunt about the sacrifice involved. "All of us are being asked to shed sweat and tears now," he said in his inaugural speech two months ago.

Koreans, still reacting to the legacy of Japanese colonial rule that ended in 1945, have long opposed foreign investment as economic exploitation.

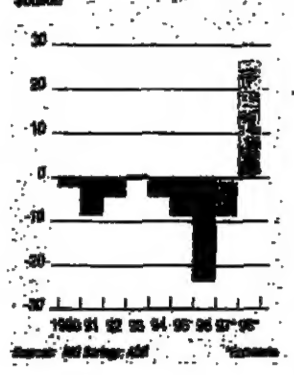
But public criticism of foreign takeovers has been muted in response to Seoul's pronouncements that such investments are the only way to save the economy.

Seoul is pressing ahead with trying to attract foreign investment, opening new areas, such as the right to buy property. Support for reform is still strong, with polls showing 65 per cent approving the effort. Nonetheless, there are disturbing signs of resistance, such as boycotts of imported consumer products.

If the president can retain popular support, he has a fighting chance to succeed and revive Korea's competitiveness in global markets. But the coming months will test the public will to an unprecedented degree.

Real GDP growth
Annual % change

Current account balance
$billion



Constitution

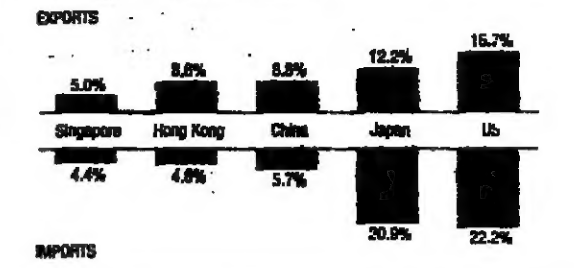
... formed by merger in 1990 of the then ruling Democratic Justice Party with two opposition parties, changed its name to New Korea Party (NKP) in December 1995 and then to the Grand National Party (GNP) in November 1997. The NKP only gained 139 seats in the April 1996 election, but the GNP has since won over independents and others, giving it 161 seats and an overall majority of twelve

- Area: 99,314 sq km
- Language: Korean
- Currency: Won
- Exchange rate: 1997 average $1 = Won1,155; April 14 1998 $1 = Won1,386
- Population: 45.5 million (1996)
- Main cities and population: Seoul (capital) 10,470,000; Pusan 3,870,000; Taegu 2,461,000; Inchon 2,404,000

Economic summary

	1997	1998(forecast)
Total GDP ($bn)	421.0	316.1
Real GDP growth (annual percentage change)	5.5	-1.4
GDP per head ($)	9154	7138
Inflation (annual percentage change in CPI)	4.5	12.5
Wage rates (annual percentage change)	5.2	-3.0
Industrial production (annual % change)	7.5	2.5
Unemployment rate (percentage of workforce)	2.6	6.8
Money supply, M2 (annual percentage change)	12.6	9.4
Foreign exchange reserves ($bn)	8.9	33.5
Government expenditure (percentage of GDP)	20.3	21.0
Total foreign debt (percentage of GDP)	2.5	5.7
Current account balance ($bn)	-8.6	28.4
Merchandise exports ($bn)	137.5	148.4
Merchandise imports ($bn)	140.4	123.5
Trade balance ($bn)	-2.9	22.9

Main trading partners (share of total trade 1996)



FOREIGN TRADE • by Guy de Jonquières

New truth, old maxim

'Export or die' has never been more relevant as recession tightens its grip

For three decades the watchword of the industrialisation programme which made Korea the world's eleventh richest economy has been export or die. But never has the pressure to put the axiom into practice been more urgent than today.

With Korea's economy plunging into deep recession, and its main industries struggling under the weight of massive debts, hopes of generating the income needed to spur recovery and keep the corporate sector solvent depend crucially on increased export earnings.

At first glance Korea seems well placed to meet the challenge. It is the world's largest shipbuilder and producer of D-Ram memory chips, the fourth biggest car exporter and the sixth largest steelmaker.

Weak domestic demand has freed potential export capacity in all these industries while the steep depreciation of the won should sharpen their international competitiveness.

Although Korea's trade balance has moved into surplus since the onset of the financial crisis in November, the improvement is largely due to a sharp fall in imports.

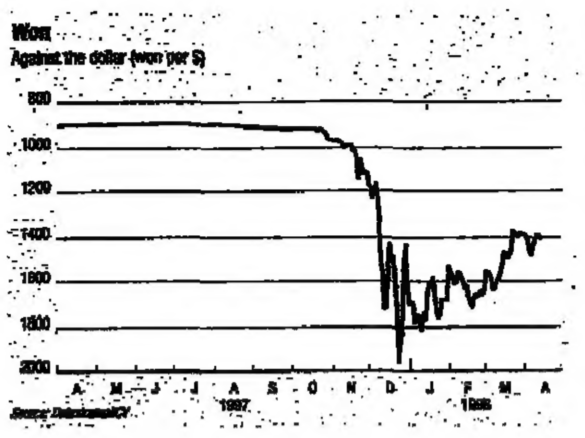
Exports have only edged up and many independent economists expect a 10-15 per cent rise in volumes this year, much less than some had previously forecast.

The immediate cause of the disappointing performance is soaring interest rates and a brutal credit squeeze, which have made trade finance hard to come by.

The crunch has been exacerbated by the shakiness of Korea's banking system, which has made foreign banks and trade finance houses cautious about accepting letters of credit issued by its financial institutions.

Recently there have been signs that conditions are starting to ease, though few economists expect interest rates to fall fast. But, in addition, other daunting obstacles and uncertainties stand in the way of Korean industries' efforts to compete more effectively on international markets.

"Export businesses face great difficulty," says Cha Dong-se, president of the Korea Development Institute, a government think-tank.



"There will be no big windfall profits from devaluation," adds Stephen Marvin, head of research at Ssangyong Securities.

Probably the most serious handicap is that almost half Korea's exports go to other countries in Asia. Japan, its second biggest market worldwide and destination for about a fifth of its total exports, is teetering on the brink of recession, while most south-east Asian markets are sharply cutting imports.

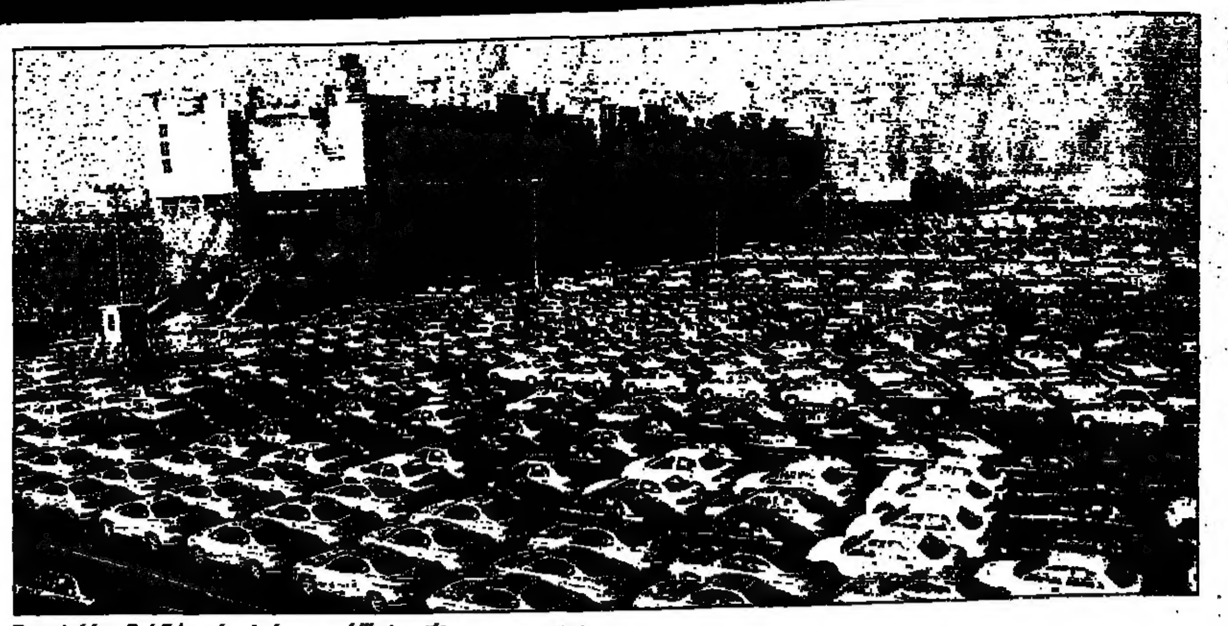
China, an increasingly important market for Korean exports of steel and intermediate manufactured products during the 1990s, faces slower growth. Concern is growing in Seoul that continued weakening will lead to a devaluation of the yuan later this year.

That would reduce China's imports further, at least in the short term, and could trigger a spiral of competitive devaluations in Asia.

Prospects in the West look equally troubling. In the US, where Korean exporters' market share has been in steady decline for a decade, they face fiercer competition from other parts of Asia whose national currencies have also fallen.

There is also the risk that successful inroads into US and European markets would trigger a protectionist backlash there.

That danger is increased by the fact that some industries in which Korea is a leading international competitor, notably cars, are suffering from worldwide excess capacity which is depressing profits.



Export drive. But it is going to be an uphill struggle

Korean car producers contributed substantially to the glut with huge expansion programmes in the mid-1990s, which weak demand at home is now forcing them to cut back.

Similar doubts cloud the outlook for exports of D-Rams. These widely used microchips have been the mainstay of Korean industry's export earnings since the mid-1990s, when they accounted for roughly a quarter of total exports.

That share has since fallen to 10-15 per cent as intense worldwide competition has caused prices to soften.

Korean producers have responded by trimming capacity and accelerating the launch of the latest 64-megabit chips which carry fatter margins. But it is still not clear whether these moves go far enough.

Some industry watchers are forecasting a fall in 64MB D-Ram prices of as much as 60 per cent this year, which could erase much of Korean producers' profit.

Nor is it clear that currency devaluation will do much to help their bottom-line results.

Although Korea's top three D-Ram makers export nearly all their output, and most of their operating costs are in won, their fixed costs are largely financed by dollar borrowings.

According to SBC Warburg Dillon Read, the financial impact on them of the fall in the won is slightly negative.

The perverse effect of devaluation is not unique to semiconductor makers. Korea's export industries suffer from a broader structural weakness.

The country's failure to develop a strong base of indigenous suppliers and sub-contractors, as Japan has done, means many manufacturing companies are assemblers which rely heavily on imports of critical components and machinery.

In manufacturing industry barely half of all value-added is generated locally. As a result much of the competitive advantage which exporters stand to gain from devaluation is wiped out by higher prices for imported inputs.

Many of the best-performing exporters since November are in heavily labour-intensive sectors such as textiles, clothing and footwear – ironically, Korea's leading exporters before industrialisation.

The country's newer export industries face a tougher struggle to achieve profitable growth.

Whatever gains they reap from shifts in the exchange rate will need to be supplemented by painstaking efforts to reduce foreign debt, cut costs and improve productivity.

That battle has only just begun.

Financial pressures. Investors withdraw funds from a Korean brokerage house

FINANCIAL REFORMS • by Bethan Hutton

No time for complacency

The successes may be blinding the world to the serious problems that remain

Over the past few weeks, South Korea has been receiving plaudits for its success in tackling its financial crisis. It took Korea some time to accept the necessity of intervention from the International Monetary Fund but since agreeing to the $58.5bn rescue package - with accompanying conditions - it has proved a model pupil.

Michel Camdessus, the IMF's managing director, last week praised Korea's progress, saying that it was recovering faster and regaining international confidence quicker than he expected.

More tangible signs of outside approval came with the Korean government's successful launch of a $4bn bond issue earlier this month, and last month's private sector agreement to reschedule about $22bn of the Korean corporate sector's short-term overseas debt.

This was seen as a cause for much self-congratulation, as foreign lenders responded much more positively than had been expected. They agreed to roll over almost all the debt requested, at lower than expected premiums to Libor and at longer maturities.

But some observers are warning that these successes may be creating complacency and blinding the world to the serious problems that remain.

Many of the financial reforms imposed by the IMF as conditions for the bail-out are measures that Korea – both the state and private sector – has been resisting or delaying for years. They may have come too late to be helpful in the current extreme circumstances.

At first glance, the list of reforms is impressive. Stock and bond markets are being fully opened to foreign investors.

The central bank has been given independence in setting monetary policy. The new government has promised that all controls on capital flows in and out of Korea will be lifted on July 1, including full foreign exchange liberalisation.

In addition overseas buyers will be free to buy almost any Korean company, even in a hostile takeover. Most of Korea's property market will also be opened to foreigners.

Many of the reforms are long overdue. Korea has more than once been accused of opening the door to foreign money only when it is seen as necessary for the country's financial health, not when foreign investors are clamouring at the door.

Over the past few years, the limit for foreign investment in Korean shares has been raised several times, but usually only when the stock market looked in need of an injection of new funds.

So far, foreign investors are co-operating to some extent with the government's plans. More money than many analysts expected has flowed into Korea this year, in the form of portfolio investments which have boosted the stock market at least temporarily.

Direct investments will take longer, but once made, are more stable. However, there are signs that Korea still has an inflated view of its own attractiveness to foreign capital.

Henry Morris, director of IRC, a business development company in Seoul, says that although IMF-inspired financial reforms have technically opened the door to foreign investors, there are still many impediments.

He cites the accounting system, where the treatment of bad debts is incompatible with Western accounting practices, as a big disincentive to potential foreign buyers looking at Korean financial institutions.

Lack of disclosure, and potential future liabilities arising from debt guarantees, are also putting off buyers. Mr Morris thinks that government hopes of finding foreign buyers or merger partners for ailing banks and brokerages are unrealistic in present circumstances.

Praise from the IMF, however, does not mean that Korea's domestic economic performance is looking good. It concedes that the Korean economy is likely to shrink by 1 per cent this year, and even that estimate is optimistic compared with many private sector economic forecasts, which put growth at a negative 3 to 5 per cent this year.

While it appears to be doing well in sorting out Korea's overseas debt problems, the IMF has not been involved in trying to resolve the even bigger burden of domestic corporate debt.

Many Korean companies are leveraged by 300 per cent or more, and most of that debt is owed to domestic banks. Interest rates are still cripplingly high, at around 20 per cent, but they cannot be lowered yet because of IMF conditions and the danger of triggering another run on the currency.

Stephen Marvin, of Ssangyong Securities in Seoul, warns that Korean companies need $4bn a month to service their domestic debt, but they are generating nowhere near enough cash flow.

He sees a scenario unfolding in which unmanageable levels of corporate debt cause an implosion of the banking system later this year, probably by the end of the summer.

This would require the government to take urgent action to recapitalise the financial system, but it is still not clear where this money would come from. Korean public finances have been relatively healthy, but this is changing with falling tax revenues and growing demands on government finances due to the economy's collapse.

The $4bn raised in the government's first overseas bond issue since the crisis does not appear to be earmarked for the financial system. Instead, it will probably be used to boost foreign exchange reserves, and help pay for the growing calls on the social security system, particularly unemployment benefits.

More cash may be raised with further forays into international capital markets, particularly if the ratings agencies upgrade Korean sovereign debt to investment-grade status, from its current junk-bond level. But there is likely to be increasing competition for funds, as other crisis-hit Asian economies return to the bond markets.

The government appears to be pinning its hopes for the survival of the domestic economy and the financial system on two things: massive export growth, and a large inflow of foreign money.

The financial reforms undertaken or promised have certainly improved the likelihood of the latter, but even more far-reaching changes may still be needed. It takes more than the simple removal of barriers to make a market attractive to investors.

BANKING • by Bethan Hutton

Weighed down by bad-debt burden

The big question now is how to boost capital levels at the remaining banks

The Korean banking system is in crisis, but analysts say the situation could get much worse before it gets better.

Years of lending decisions based on corporate links or political directives rather than credit analysis, and over-investment by large Korean companies in non-viable projects, mean that bad loan ratios at most Korean banks have soared.

Estimates vary, but it seems likely that between 15-30 per cent of all bank loans are to some extent non-performing, and more than half of these will have to be written off.

The bad-debt burden has eroded bank capital to dangerous levels. Half Korea's merchant banks have been closed down, and two commercial banks have been effectively nationalised. Korea First Bank and Seoul Bank, which had non-existent or negative capital ratios, are being propped up by the government until a buyer – preferably foreign – or some other rescue method can be found.

The IMF has given the rest of the banking system two years to bring itself up to international standards of capital adequacy, meaning a minimum level of 8 per cent.

Most Korean banks fell below the 8 per cent capital adequacy level by the end of last year, and will have slipped further since.

The half dozen that still look relatively healthy are mainly those with foreign links and capital – Koram Bank and Hana Bank, for example – or those which were not so exposed to the corporate market, such as the Housing and Commercial Bank.

The big question now is how to boost capital levels at the remaining banks. The amount of capital needed is a moving target, as daily corporate bankruptcies increase the size of bad-loan portfolios.

The government-linked Korea Institute of Finance recently estimated that by the end of this year bad loans at Korean financial institutions would amount to Won58,000bn, and that at least Won62,000bn would be needed to recapitalise the financial system.

Stephen Marvin, head of research at Ssangyong Securities in Seoul, said the KIF figures showed that officials were becoming more realistic about the extent of the problem, but his own calculations still produced higher bad debt totals.

He thinks at least Won100,000bn-Won110,000bn will be needed to recapitalise the sector.

One step in the process was taken last year, before the crisis erupted, with the establishment of the Korea Asset Management Corporation, modelled on the Resolution Trust in the US.

This is a government-backed institution which buys up non-performing loans from banks and other financial institutions, and aims to recoup the cost by collecting the loans, selling off collateral, or possibly securitising the debt.

The problem is that the KAMC has a budget of Won30,000bn of which it has already spent Won7,500bn. The government may have to pump further money in, but it has many other calls on its limited resources.

Another concern is that the KAMC may have been paying out too much for the loans. It has been taking on the loans at discounts of between 25 per cent and 75 per cent, depending on whether they are backed with collateral.

The majority have property holdings as collateral, so the discount is less.

Property prices have risen steadily in Korea over the past two decades, but it has not experienced the kind of speculative property boom seen in Japan or some parts of south-east Asia.

There is nonetheless concern that valuations of the property held as collateral for many loans may now be over-generous, given the glut of property on the market, and absence of buyers.

The KAMC cannot be the only solution to the banking sector's problems, but other options are limited.

Equity issues are unlikely to fill the need, given the amount of capital required, and the fact that many banks' share prices have fallen below par value.

Some of the stronger banks have made successful rights issues recently, but the ones most in need of funds are unlikely to attract them.

Finance ministry officials are hoping that healthier institutions, particularly foreign ones, will take over struggling banks.

Objectively, however, there seems little reason for buyers to snap up deeply troubled banks, particularly when the full extent of their bad loans is not yet clear.

Citibank, which has operations in Korea, is seen as the most likely candidate to buy all or part of Seoul Bank or Korea First – both have branch networks which would provide it with an easy way to expand its position in Korea. HSBC is another possible candidate.

However, banking analysts agree that no one is likely to take either bank on unless the government relieves them of their bad loan portfolios and provides a guarantee against any hidden problems.

The government had originally planned to sell the two banks by the end of February; the current deadline is November.

It has even said it would consider selling large stakes in the two banks to chaebol industrial groups, which are now banned from substantial involvement in banking.

But it seems the banking crisis is so acute that strong action will have to be taken. This will be a relief to some in Korea, who have been looking with concern across the water to Japan, where action to restructure the financial system was repeatedly delayed by political and commercial concerns.

Korea cannot afford to attempt partial solutions: if the economy is to get back on its feet, the government cannot still be fiddling with the mess in its banking sector a decade from now.

FINANCIAL SECTOR • by Bethan Hutton

Wind of change

Companies hit by the crisis are having to adjust quickly to the real world

After decades of being shielded from outside competition, and protected from its own shortcomings, Korea's financial industry is suddenly having to adjust to the real world.

The dire state of the Korean banking sector has been dominating the headlines, as institutions collapse and both the state and private sector search for solutions to the banks' capital shortage. But the problems are not confined to big commercial banks.

Half the country's merchant banks have been ordered to close their doors, and some of the survivors are still looking in a precarious state.

At least two securities companies have fallen victim to the stock market crash and problems with loan guarantees: Coryo Securities and Dongsuh Securities are both under suspension until the end of this month, and their bankruptcy appears inevitable.

Other brokers are barely holding themselves together, with combined losses in the sector reaching Won770bn over the year to the end of March. Even credit unions are struggling with bad debts and falling deposits.

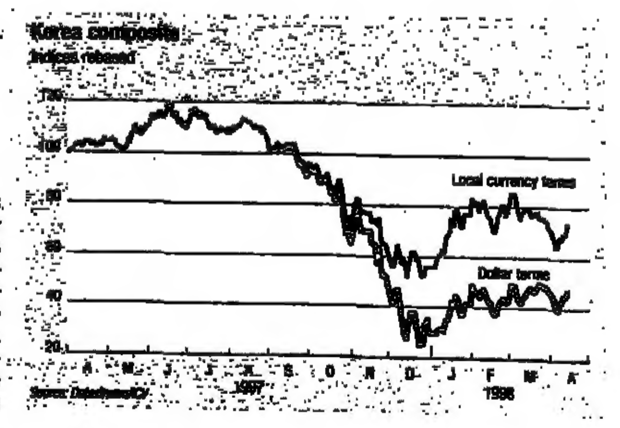
No life insurers have yet collapsed, but the apparent calm is thought to be hiding serious problems. The life insurance sector expanded rapidly over the past decade, as new entrants were allowed into the market in 1988 and 1989.

The problem is that most of the new groups did not have any experience in the life insurance business, and they thought market share was the best thing to go for, says one asset manager.

Quality of business was, therefore, low, and in the race for new business, many insurers offered high guaranteed returns, and invested in high-risk areas to try to generate those returns. They are now suffering the consequences.

Brian Hunsaker, financial sector analyst at Dresdner Kleinwort Benson in Seoul, says: "Life insurance is a very big part of the financial sector, but the life companies' problems are not so widely known. There are signs that the government is going to do something about the sector."

What form any action will take is not yet clear. The government is also being called upon to bail out the banking sector, and does not have the funds to do so.



Even before the crisis erupted, plans were under way to revitalise Korea's financial industry by removing barriers between different areas of financial services, allowing banks, brokers, insurance companies and others to venture into each other's territories or link up with each other.

The deregulatory process may have been accelerated by the recent shock, but the financial institutions themselves may not be in a fit state to take advantage of their new freedoms.

Consolidation, whether within sectors or across sector boundaries, is seen as an inevitable result of deregulation and the financial crisis. In a consolidation, however, it helps if at least one of the parties is in a healthy financial situation.

Healthy companies with the funds to make acquisitions are in short supply in Korea's financial sector. Most banks and brokers are too preoccupied with their own survival, without trying to forge a new entity out of two separate corporate cultures.

Also, the normal logic of mergers and acquisitions is that cost savings can be made, mainly through job cuts. In Korea, despite changes to labour legislation, that is still a difficult process. Even under the new rules, companies will only be allowed to lay off large numbers of staff if they can show they are close to bankruptcy.

As in other areas, the government is hoping foreign companies will be a key source of funds and expertise in rehabilitating the financial sector.

Taking over a Korean bank or broker – and there are plenty going cheap at the moment – would certainly be an easy way in for a foreign institution.

There is a reason for the cheapness: huge and still growing books of bad loans, and unpredictable liabilities from debt guarantees.

Some would say that several Korean banks now on the auction block would be a bad buy even if they were being given away free while those in a better state may demand an unreasonable premium by international standards.

Foreign institutions, therefore, may for the moment be more interested in loose co-operative agreements or contractual arrangements, rather than mergers or acquisitions.

And given the state of the Korean economy, now is not necessarily the time to enter the Korean market. Those foreign banks which have tasted the water have not set an encouraging example.

Banking has not proved to be a very profitable business in Korea, said Mr Hunsaker at Dresdner Kleinwort Benson. The returns are low and the risks are great.

Although foreigners may not be rushing in now, once the situation stabilises and the economy improves, they may see more to interest them.

"Two or three years from now it is going to be very different," says Mr Hunsaker.

"There is going to be a lot more foreign presence. The financial sector is going to be wide open, and you cannot close it again."

LABOUR •

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CHAEBOL •

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Signs of strain. Trade unionists protest at job losses outside government offices in Seoul Reuters

LABOUR • by John Burton

Spectre of job losses

The government is trying to appease workers and maintain labour peace

When Choi Dae-rim set fire to himself and jumped to his death from an oil tanker being built at the Daewoo shipyard in February, he joined a long line of Korean union martyrs who have died to promote workers' rights. But it is uncertain whether Mr Choi's desperate action represents a harbinger of new labour protests or the last gasp of union militancy in South Korea.

Mr Choi was protesting about a new labour law that ended the tradition of lifetime employment guarantees. The new government of Kim Dae-jung, a long-time supporter of union rights, agreed to the measure under the $58.5bn rescue package from the International Monetary Fund, which regards labour market flexibility as vital to industrial restructuring.

"Legalising lay-offs marks a shift toward American-style 'cruel' capitalism, replacing Confucian capitalism in Korea" with its promise of providing secure jobs, said Chae Chang-Kyun with the Hyundai Research Institute.

Observers, however, were surprised that Korean workers reluctantly agreed to accept job cuts instead of immediately taking to the streets in protest.

A planned general strike by the Korea Confederation of Trade Unions, the smaller and more militant of the nation's two trade union groups, collapsed because workers were fearful of putting their jobs in jeopardy.

But can labour peace hold as unemployment climbs to levels not seen in at least two decades? The government initially predicted that unemployment would increase from 3.1 per cent in December to 6 per cent this year, with the loss of 1.2m jobs.

Yet with more than 3,000 businesses going bankrupt each month and an average of 10,000 workers losing their jobs daily due to Korea's worst economic crisis since 1980, the number of unemployed is soon expected to reach 2m, or at least 10 per cent of the workforce, according to the latest estimates.

"I worry that we are at the threshold of a European-style situation with a permanent class of unemployed and the need for a social welfare state," said Park Fun-koo, president of the government-supported Korea Labour Institute.

Most of those losing their jobs are low-paid, poorly-educated workers with little chance of gaining employment soon.

Korea lacks a secure social safety net. Unemployment insurance was only introduced in 1995.

The government recently agreed to spend Won8,000bn on the jobless this year which includes Won2,800bn in unemployment benefits.

This, however, covers only a quarter of the jobless and is limited to those who have contributed to the work insurance programme along with their employers, according to the labour ministry.

Unemployment benefits are meagre. They provide protection for only six months, recently increased from three months, with jobless workers receiving half of their pay.

Those losing their jobs can also rely on generous severence payments – one month's wages for every year of work. But the government estimates that 40 per cent of the workforce is not covered by this system because they are either day labourers or part-time workers.

The government is using some of the unemployment funds on programmes to retrain workers, while establishing job placement centres. But building the network will take time. Funds have also been allocated to create jobs through public works.

"For many, losing their jobs means going on the street," said Mr Park, who worries about the potential for social unrest. Strikes could erupt as unemployment begins to affect workers affiliated with the big industrial groups instead of the employees of small businesses that are bearing the brunt of the job cuts.

Industrial workers retain a lingering resentment of their treatment at the hands of big business in the 1970s and 1980s, when they were forced to work long hours at low wages, even as the nation was registering double-digit growth.

The pent-up anger was released in the late 1980s following the collapse of the military government when more than 3,000 strikes were staged to demand improved wages and the right to form independent unions.

Industrial action has since died down as wages quadrupled in the past decade, making Korean workers the highest paid in Asia after Japan.

But the bitter legacy of the clashes between labour and management is still evident at the conglomerates, such as Hyundai and Daewoo, whose workers have gained the reputation as being among the most militant in Korea despite being the best paid.

The new government has tried to appease the unions by giving them new rights to organise in return for accepting job cuts.

But the unions are demanding that the family owners of the conglomerates must also sacrifice some of their power and wealth.

"There is no reason why the workers alone must make the sacrifices, the *chaebol* (conglomerate) owners must do so as well," said Yoon Young-mo, the KCTU's international secretary.

The government is promoting a policy of *chaebol* reform to reduce the size of the sprawling industrial empires that dominate the Korean economy. But the *chaebol* are resisting some of the measures.

If *chaebol* reform remains stalled, it could provide the pretext for a wave of strikes and undermine the government's promised economic reforms.

POLITICS • by John Burton

An uneasy presidency

Kim Dae-jung's weak political hand threatens his plans for reforms

For a president who wants to introduce radical reforms to pull South Korea out of its worst economic crisis in two decades, Kim Dae-jung starts with the handicap of having a weak political hand.

Elected with only 40 per cent of the vote last December, the nation's first opposition leader to enter the Blue House must contend with a parliament controlled by the former ruling Grand National party (GNP).

He must also share power in Korea's first coalition government with the right-wing United Liberal Democrats (ULD), who make strange bedfellows with Mr Kim's mildly social democratic National Congress for New Politics (NCNP).

The fact that Mr Kim represents the interests of the rural Cholla region, Korea's poorest, which has traditionally been discriminated against by the Seoul elite, only adds to his problems.

The centre-right GNP has proved to be the biggest obstacle to Mr Kim as he begins his single five-year term.

It withheld parliamentary approval of his nominee as prime minister, the ULD leader Kim Jong-pil, and tried to weaken reforms affecting the conglomerates, or *chaebol*, which have close ties with GNP.

Tensions have increased after the new government threatened to take action against GNP members and former officials.

They are alleged to have conspired with the intelligence service in a disinformation campaign to smear Kim Dae-jung during the presidential election by claiming he was secretly backed by communist North Korea.

The political struggle between the government and GNP threatens to derail Mr Kim's reform programme, which analysts believe must be implemented within the year if the programme is to maintain momentum.

The government has succeeded in passing some reform legislation, such as ending lifetime employment guarantees and improving corporate governance, under pressure from the International Monetary Fund and foreign investors.

But more needs to done, including curbs on the growth of the *chaebol*, closing insolvent financial institutions, and offering social benefits to Korea's growing army of unemployed.

Some analysts believe the parliamentary stalemate could be broken in the next few months if the government coalition succeeds in persuading MPs to defect from the GNP, which holds a slim 12-seat majority, with 161 seats in the 299-member National Assembly.

The GNP is faction-ridden following its defeat in the December presidential election.

One catalyst for its break-up could come with local elections in June. A good performance by the government might tempt GNP defections, with the ULD likely to be chief beneficiary.

That raises a question about the balance of power between the two coalition partners because of Mr Kim's dependence on the ULD in parliament. It holds 43 seats against 78 for the NCNP.

The coalition resulted from an election pact as Mr Kim sought conservative voters to help him achieve his narrow victory. He agreed to appoint the ULD leader as prime minister and share half the cabinet posts.

The coalition has operated smoothly despite the ideological differences between Kim Dae-jung, a long-time dissident, and Kim Jong-pil, who masterminded the nation's first military coup in 1961 and then founded the notorious secret police.

Moreover, the ULD represents the architects of Korea's state-guided capitalism that the president is trying to dismantle in favour of a free market system.

The ULD's inclusion has provoked worries that President Kim might have to curb economic reforms to keep the coalition stable. The cabinet has been criticised for being designed more to meet the needs of political expediency than those of reform.

ULD members dominate the economic portfolios. The finance minister, Lee Kyu-sung, previously served in the post in 1988-90 at which time he favoured using state funds in the stock market to boost share prices.

Two-thirds of the cabinet posts are filled by politicians rather than the technocrats normally named as government ministers. This is considered a trial run for the parliamentary system the president has promised to introduce in 2000 as another concession to the ULD.

The German-style parliamentary system would give effective control of the government to Kim Jong-pil, if he remains premier and achieves his ambition of becoming a national leader. But a switch to a parliamentary government must be be approved by the National Assembly.

Analysts expect a parliamentary system to be favoured by MPs since it would give them a greater say in government and provide them with new opportunities to provide largesse to their local districts.

But devolving power to the parliament could also rob the nation of strong political leadership by entrenching vested interests. President Kim appears to be trying to break bureaucratic resistance to reforms by transferring power from the ministries to the Blue House.

He has reduced the influence of the finance ministry, considered the "ministry of ministries", by giving a new agency a supervisory role over financial institutions. The central bank has achieved independence in setting monetary policy, while budget planning has been placed under the president rather than the finance ministry.

Economic advisers to the president have a more liberal bent than those officials heading most of the ministries and reformers have been appointed to several key posts, including the central bank governor and the director of the financial supervisory board.

The coalition has operated smoothly – President Kim Dae-jung (right) and Kim Jong-pil AP

CHAEBOL • by Guy de Jonquières

Kim's giant challenge

The government faces a tricky task in changing the family-run conglomerates

If there is one acid test of Korea's determination to build a more open, flexible and competitive market economy, it will be its success in reforming the *chaebol*, the bloated family-run conglomerates which dominate the country's industrial landscape.

The *chaebol*'s power has long inspired hatred and fear, even among their own employees.

Their reckless debt-driven expansion into unrelated businesses has been blamed for stunting competition, distorting domestic markets and squandering national resources on grandiose investment projects, designed more to satisfy their chairmen's vanity than to earn commercial returns.

Now the country's financial crisis, brought on largely by the groups' unsustainably large foreign and domestic borrowing, has given Kim Dae-jung's government the opportunity to do what its predecessors only talked about - cut the *chaebol* down to size.

Spurred by pressure from the International Monetary Fund, it has set about the task with gusto. Well before he took office President Kim called in the heads of the leading *chaebol* and told them they must rapidly change their ways.

Among his demands were that they make their operations more transparent by publishing consolidated financial statements, stop guaranteeing subsidiaries' borrowings with assets of other companies in the same group, accept greater accountability to shareholders and radically slim down by selling businesses and cutting costs.

Mr Kim has kept up the pressure with legislation to reform corporate accounting, remove restrictions on foreign equity investment and legalise hostile takeovers.

At the same time he has started to attack Korea's notoriously rigid labour market restrictions by authorising companies in difficulty to lay off employees. But the most powerful agents for change are Korea's strict monetary policy and planned banking reforms.

Soaring interest rates and slumping domestic demand are severely squeezing the *chaebol's* rickety finances and have plunged several smaller ones into bankruptcy.

Others may follow. Hyundai Research Institute, an offshoot of one of the largest *chaebol*, estimates that even if the country's 30 biggest industrial groups maintain sales this year at last year's level they will lose at least Won14,000bn. This is equivalent to a fifth of their combined capital, if interest rates average 20 per cent.

Meanwhile, the government hopes planned reforms of the banking sector will induce Korean commercial banks to replace crude traditional lending policies, based largely on collateral pledged by borrowers, with more sophisticated risk assessment criteria.

Along with growing pressure from foreign institutional shareholders on *chaebol* to improve their performance, these changes should lead managements to focus more intently on maximising profit.

That, at any rate, is the theory. But, despite the tightening financial tourniquet and plummeting domestic sales, the *chaebol* have yet to take drastic measures to put their house in order.

Although most acknowledge that they need to rebuild their capital bases by weeding out poorly performing businesses, they have shrunk from the wielding the axe.

Most complain that they are being expected to do too much too fast.

Lee Yun-ho, president of LG Economic Research Institute, says LG Group, its parent, will need five years to lower its debt-equity ratio from 360 per cent to the 200 per cent level the government wants the *chaebol* to reach by the end of the year. "There is no quick solution. We need more time," he says.

Many foreign observers believe the *chaebol* have yet to grasp the gravity of their situation. "The solvency position of the corporate sector is horrendous," says Richard Samuelson, of SBC Warburg Dillon Read. "But the *chaebol* do not seem to know the score. Their policies so far have been reactive, not proactive."

Adrian Cowell, of Dresdner Kleinwort Benson, says many *chaebol* have still to accept that they need to sell prized assets to raise enough money to repair their capital bases.

"They think they can get by simply by getting rid of any old rubbish. But who is going to pay good money for it? The numbers just don't add up."

The *chaebol* face tough challenges.

Primitive management information systems mean they lack the detailed financial data and analysis needed to value assets and define core strategic businesses.

They are also reluctant to advertise businesses for sale for fear of appearing to be distress sellers in a buyers' market and provoking violent employee protests.

However, there are also suspicions that the initial shock of the crisis may be giving way to complacency.

"Top managers of some groups think the problem is only temporary, that interest rates will fall and then things will be all right again. But they are wrong," says Jong Hyun-chang, head of the Seoul office of Booz Allen, the international management consultancy.

There is another, more troubling, interpretation - that the *chaebol* are dragging their feet in a deliberate attempt to force the government to relax its strict policies.

Lee Hahn-koo, president of the Daewoo Economic Research Institute, insists that high interest rates are threatening such damage to the economy that the IMF will soon be obliged to soften its prescriptions.

The *chaebol's* strongest card is the knowledge that their own operations are so vital to national employment, exports and wealth creation that the country's economic infrastructure would be devastated if they were forced into total collapse.

As a senior finance ministry official puts it: "What happens if the *chaebol* say: 'If we die, the economy dies too?'" He has no answer to his own question.

Such a gambit is fraught with danger. The government is acutely aware that it cannot relent on its austerity regime, before it has produced the restructuring it is designed to promote, without forfeiting the international confidence on which economic recovery hinges.

But delay by the *chaebol* in setting their affairs in order risks making the crisis still worse by undermining their increasingly precarious financial structures.

So far the authorities have insisted they will let market forces do the job. But some analysts fear that if results are slow to materialise, the government might be tempted to intervene directly in an effort to compel the *chaebol* to restructure.

That could mark the start of a slippery slope. Previous Korean governments which have set out to impose change on the *chaebol* have invariably ended up as their powerless captives.

To avoid that fate, and the almost inevitable, calamitous economic consequences, President Kim will need to show that his new-found faith in the market is matched by a steely political will.

4 KOREA

SMALL BUSINESS • by Guy de Jonquières

Living with the crumbs

The government has pledged it will remove constraints on the sector's growth

If Korea's new government has its way, the country's recovery will be forged in a ferment of entrepreneurial energy.

President Kim Dae-jung, who draws much of his political support from small businesses, has promised to put them at the centre of his economic restructuring plans by bulldozing the restrictions which have inhibited their growth.

His plans include Won1,000bn in low-interest loans for smaller companies, an attack on red tape and a bigger role for the Fair Trade Commission, Korea's traditionally toothless competition watchdog, with the aim of encouraging the formation of 20,000 fast-expanding companies in the next five years.

At any other time the prospect of such a helping hand would be cause for rejoicing by the downtrodden owners of Korea's 2.6m small businesses and their 9m employees.

But today most are too worried about short-term survival to put much faith in politicians' promises of jam tomorrow.

Since the country was plunged into financial crisis in November, small businesses have taken much of the pain. Choi Dong-kyu, of the Korea Small Business Institute, says their bankruptcy rate has doubled to more than 3,000 a month and will continue to accelerate as domestic demand slumps.

In a country where the lion's share of financial resources has long been channelled on preferential terms into prestige investments by the *chaebol*, small companies have learnt to live with the crumbs.

Commercial banks' reluctance to lend without collateral, and their lack of risk assessment skills, has denied most small businesses the capital needed to grow fast. The onset of high interest rates and a severe shortage of credit has come as a crushing blow.

Dr Choi estimates that more than half of all small businesses have been obliged to turn for loans to the unofficial "kerb market", where annual interest rates of 50 per cent or more are common.

The squeeze has been tightened by the cash shortage among the *chaebol*, on which many small businesses rely as customers. Never fast payers, taking at least four months even in good times, the *chaebol* are stretching out payments to small suppliers for even longer.

Meanwhile, Dr Choi complains, competitive conditions are being made tougher by Korea's lenient bankruptcy laws, under which several big companies have recently filed for protection from their creditors.

Released from the obligation to pay interest on borrowings, these companies are unfairly cutting prices to levels which even their most efficient smaller rivals cannot match profitably, he says.

The picture, however, is not entirely bleak.

Lee Min-hwa, chairman of Korea Venture Business Association, a recently formed grouping which represents young entrepreneurial businesses, still believes it will meet its target of doubling membership to 1,000 companies this year.

"The recession will create new opportunities for venture-backed businesses," says Mr Lee, who is president of Medison, a successful medical diagnostics company he founded in 1987.

His confidence is shared by Yun Yeo-gyeong, president of Korea Development Investment Finance Corporation, one of the country's rare western-style venture capital investors.

Unlike most of the self-styled venture capital companies, which are affiliated to *chaebol* and only make loans, KDIFC is an independent concern which provides equity financing and management support for start-ups.

Mr Yun says that although the financial crisis has forced KDIFC to defer plans to float on the stock exchange three of the 52 companies in its portfolio, only one has failed so far this year.

The two men can afford a relatively relaxed stance because the businesses they represent are unusual by Korean standards. Most are "knowledge-based" concerns which compete in technologically sophisticated markets.

Because they earn a large proportion of sales internationally they are far less vulnerable to the weakness of the domestic economy and stand to profit from the won's collapse. They also depend heavily on equity financing, which lessens the impact of high interest rates and scarce credit.

Mr Lee and Mr Yun believe the recession will enlarge the pool of entrepreneurial talent by forcing the *chaebol* to sack employees, who will seek to set up their own businesses. Mr Yun thinks, however, that they will be of variable quality.

"Korea has lots of good engineers, but few are experienced businessmen," he says. "The guys I want are the ones the *chaebol* least want to let go."

Both men are sceptical of the government's plans to provide subsidised loans to small businesses, saying it should focus on deregulation and strengthening the country's capital markets.

They particularly stress the need to develop Kosdaq, the electronic over-the-counter exchange on which about 360 small companies are listed and which is being opened to both Korean and foreign institutional investors.

Kosdaq has long suffered from poor liquidity, and trading on it has all but seized up since Korea's financial crisis broke. But Mr Yun, who is also an adviser to the government, is convinced that the problem is temporary.

"As soon as things have settled down, I am sure many foreign investors will want to invest in it," he says.

He has little time for the many small Korean businessmen who complain incessantly that the odds are unfairly stacked against them. "This country has been good at promoting entrepreneurs. If an entrepreneur is any good he can survive anywhere," he says.

Mr Lee strikes a similarly upbeat note. The environment for small businesses, he says, "is much better than a few years ago, and it is improving very fast."

But the two men's vision of a Korean economy propelled forward by the efforts of fast-growing high-tech enterprises is a world away from the grim reality which faces most of the country's small businesses.

"Some people say small is beautiful," Dr Choi says. "But that is not the case in Korea."

Chaebol have enjoyed the lion's share of financial resources

INVESTMENT • by Guy de Jonquières

Volte-face on capital

The president now sees foreign money as essential to the recovery

To visit Seoul's smarter hotels these days is to re-live scenes in eastern Europe soon after the fall of the Berlin Wall.

In lobbies and coffee shops, sharp-suited Western bankers and businessmen hold impromptu meetings with hopeful-looking local contacts.

Documents are scrutinised, numbers crunched, further meetings planned. Maybe, just maybe, deals might be in the making.

For Koreans, however, the experience could not be less familiar. For generations their inward-looking society has been accustomed to keeping the rest of the world at an unrespectful distance.

Now, the collapse of the country's economic "miracle" is forcing it to swallow its pride and seek salvation in foreigners' arms.

Kim Dae-jung's government has lost no time ramming the message home. The new president has repeatedly emphasised that Korea's recovery depends on going all-out to woo international confidence and attract large inflows of capital from abroad.

Unlike south-east Asia's "tiger" economies, whose growth depended heavily on investment by foreign multinationals, Korea's prosperity was largely home-grown. Tight restrictions on inward investment kept ownership of all the main sectors of its economy firmly in Korean hands.

At less than $8bn, foreign direct investment (FDI) inflows in the decade to 1995 were among the lowest for any economy of comparable size and development in the world.

As some Koreans now acknowledge, protectionism constricted access not just to an important source of capital but to world-class technology, management and marketing knowhow.

A report by Booz Allen, the international management consultancy, warned in October: "The xenophobic attitude to FDI and the internalisation of technology now make it difficult to master the new forms of knowledge that Korea requires for an economic metamorphosis.

"Unless these challenges are addressed rapidly, the prospect facing the country is dark."

The crisis has prompted the government to lay out the welcome mat for foreign investors. The questions are: how many will take up the invitation and whether they will really be made to feel at home?

The bounce in the Seoul stock market this year suggests international portfolio investors are responding. But, despite the lure of modern assets at bargain-basement prices, prospective direct investors are taking their time.

"Foreign buyers are not dropping out of the sky and snapping up anything in sight," says a US business executive in Seoul. Indeed, a gold rush seems unlikely to develop quickly.

The government apparently hopes to relieve severe problems in the banking sector by finding foreign buyers for the First Korea and Seoul commercial banks, which are in bankruptcy.

But foreign bankers remain wary of these or any other institutions in the sector until they have been recapitalised and bad debts brought under control.

Nor do foreign multinationals seem tempted by companies in sectors which depend heavily on Korea's depressed domestic market such as construction, consumer products and some categories of capital equipment.

Korea's leading export industries, including cars and electronics, are more attractive opportunities. Many have recently invested in efficient, highly automated plants which have been made still more competitive by the won's decline. But prising these assets away from the owners on acceptable terms may not be easy.

Steve Marvin, of Ssangyong Securities, says many Korean companies have inflated ideas about the worth of their businesses.

"They still think of Asia as the oyster of the world economy, and of Korea as its pearl," he says. But Western companies say Korean business's primitive accounting systems make unearthing the financial data needed to value prospective acquisitions and conduct due diligence procedures an arduous task.

Such lack of transparency, coupled with wariness about Korea's history of hostility towards foreign business, is encouraging many prospective western investors to play safe.

"Most are looking at companies they already have a relationship with," says a US business executive. "But unless they have a truly wonderful local partner, which is pretty rare in Korea, they are shunning joint ventures and insisting on overall control."

> Western buyers can probably afford to wait for prices to fall

Many are also said to be seeking to limit risks by bidding selectively for factories and equipment.

Given the scale of the asset disposals which Korean companies need to make to fend off the threat of financial collapse, prospective Western buyers can probably afford to wait for prices to fall.

Some believe really interesting opportunities may not materialise for at least another year, when the *chaebol* feel that their backs really are against the wall.

But securing keen prices may be only the start of the process. For all the official insistence that Korea is now an open market, there is still plenty of evidence of grass-roots xenophobia.

For instance, some service stations in Seoul have refused to fill up the few imported luxury cars in the city.

No one knows how rank-and-file workers will respond to foreign ownership, particularly if their new bosses insist on cutting wages and jobs. "Koreans are almost totally unfamiliar with foreign management. How fast they adjust is a crucial issue," says Park Fun-koo, head of the Korea Labour Institute, a government think-tank.

He warns that, despite plans to amend the country's labour laws, if foreign companies try to deal with Korea's notoriously militant trades unions by locking them out they will face widespread resistance. Such action could trigger a more general backlash against foreign owners.

Jong Hyun-chang, head of Booz Allen's Seoul office, says Koreans need to stop identifying the country's economic welfare with the interests of its national producer industries and start thinking in terms of its attractions as a business from which companies from all over the world can compete in global markets.

Korea can certainly present an impressive list of credentials including one of the best-educated populations in Asia, abundant skilled labour, and fierce dedication to self-improvement and hard work.

However, even on the most optimistic assumptions, it will probably be many years before the country is ready to accept foreign investors as full corporate citizens rather than guests whose presence has been brought about by adverse economic circumstances.

After all, in the US and much of Europe, with much longer histories of international exposure, acquisitions and investments from abroad still arouse sensitivities about foreign economic domination. It hardly seems realistic to expect Korea, now struggling to shake off a tradition of insularity, to prove any more open to the world.